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IN THE

Supreme Court of the United States

USI MIDATLANTIC, INC., AND WILLIAM HAUGHEY,

Petitioners,

v.

WILLIAM A. GRAHAM COMPANY D/B/A THE GRAHAM COMPANY,

Respondent.

On Petition for a Writ of Certiorari
To the United States Court of Appeals
For the Third Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether, for a cause of action arising under federal law, the default rule is that the "statute of limitations begins to run when the cause of action is complete," absent contrary indications in the statute, *TRW, Inc. v. Andrews*, 534 U.S. 19, 39 (2001) (Scalia, J., concurring), as the Fifth Circuit has held, or whether the default rule is that the limitations period begins to run at the time that injury is discovered, as the Third Circuit held here.

2. Whether the Third Circuit erred in holding, based on its prior decision in *Merck & Co. v. Reynolds*, *cert. granted* No. 08-905 (May 26, 2009), that, under its default "time of discovery" rule for triggering a statute of limitations, the plaintiff had no duty to investigate the factual basis of its claim until it had specific evidence of each element of its claim.

PARTIES TO THE PROCEEDING

The caption lists all the parties to the proceedings below.

CORPORATE DISCLOSURE STATEMENT

Petitioner USI MidAtlantic, Inc. has the following parent corporations: USI Insurance Services, LLC, wholly owned by Compass Acquisition Holdings Corporation, wholly owned by Compass Investors, Inc. No publicly held company owns 10% or more of the party's stock. The following non-public investment funds own more than 10% of Compass Investors, Inc.: GS Capital Partners VI Fund, L.P.; GS Capital Partners VI Offshore Fund, L.P.; and GS Capital Partners VI Parallel, L.P.

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In the Supreme Court of the United States

USI MIDATLANTIC, INC., AND WILLIAM HAUGHEY,

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On Petition for a Writ of Certiorari
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for the Third Circuit

PETITION FOR A WRIT OF CERTIORARI

USI MidAtlantic, Inc. ("USI"), and William Haughey respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Third Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-38a) is reported at 568 F.3d 425. The opinion of the district court (App., *infra*, 39a-68a) is reported at 484 F.Supp.2d 324.

JURISDICTION

The court of appeals entered its judgment on June 5, 2009. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

In pertinent part, the Copyright Act provides that "[n]o civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued." 17 U.S.C. § 507(b).

STATEMENT OF THE CASE

The Copyright Act sets forth a three-year statute of limitations. Respondent's claim of copyright infringement against USI, however, rests on acts that occurred over a decade prior to the date respondent brought suit. The Third Circuit nonetheless held that respondent's complaint was timely on the theory that federal statutory claims are presumptively subject to a plaintiff-friendly "time of discovery accrual rule." In addition, applying its decision in *Merck & Co. Securities, Derivative & "ERISA" Litigation*, 543 F.3d 150 (3d Cir. 2008), *cert. granted*, No. 08-905 (May 26, 2009), the Third Circuit held that respondent was not on sufficient notice at the time of infringement to trigger the Copyright Act's limitations period because the numerous warnings and signs of infringement that respondent had received did not establish every single element of its claim.

1. USI and respondent are insurance brokerage firms that procure insurance coverage for their customers. App., *infra*, 3a; C.A. J.A. 4, 187-188, 194-195. In 2005, respondent sued USI for copyright infringement under the Copyright Act, 17 U.S.C. §§ 501, 504. *See* App., *infra*, 8a. That Act provides, as relevant here, that "[n]o civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued." 17 U.S.C. § 507(b).

Respondent's suit rests on conduct that began over thirteen years prior to the filing of its complaint. In 1991, respondent copyrighted certain documents that were referred to below as the "Standard Works." App. 4a. Respondent designed the Standard Works for its salespersons, known as "producers," to use in crafting client-specific insurance proposals. *Id.* Respondent placed the Standard Works in binders, which it distributed to its producers, *id.* at 42a, and it put copyright notices on client documents that incorporated the Standard Works, *id.* at 4a.

Respondent employed William Haughey as a producer from January 1985 through September 1991. App., *infra*, 3a. During his employment, Haughey was provided a set of binders containing the Standard Works. *Id.* at 4a, 43a. Haughey's was one of only eight copies of the Standard Works. Pursuant to a termination agreement with respondent, Haughey promised that he (i) would not solicit respondent's clients, (ii) would keep respondent's business information confidential, and (iii) would return to respondent all company papers

and information in his possession, including the Standard Works. *Id.* at 5a Following his termination, however, Haughey retained the binders that contained portions of the Standard Works. *Id.* Although respondent asserted that it considered the Standard Works essential to its business, it did not ask Haughey to return his binders after it terminated his employment. C.A. J.A. 368-369, 371.

Shortly after he was terminated by respondent, Haughey was hired at a competing brokerage firm, Flanigan, O'Hara, & Gentry ("Flanigan"). App., *infra*, 5a, 50a-52a. At about the time Haughey joined Flanigan, he solicited certain of respondent's clients. *Id.* at 5a. In November 1991, respondent, Flanigan, and Haughey entered into an agreement that called on respondent to sell Flanigan six of the accounts on which Haughey had worked while he was employed by respondent. *Id.* at 6a. As part of the agreement, respondent gave Flanigan and Haughey materials related to those six accounts, including copyrighted material in the Standard Works. *Id.* In exchange, Haughey promised respondent that he would keep information concerning the Standard Works confidential and return all papers and information he obtained from respondent, other than the materials related to the six accounts, and that he would not use, disclose, or divulge respondent's confidential information in connection with solicitations of other Flanigan clients. *Id.* Even after respondent solicited respondent's clients, resulting in the November 1991 agreement, respondent did not ask Haughey to return his set of binders containing the Standard Works. C.A. J.A. 369.

Beginning in July 1992, Haughey included portions of the Standard Works in proposals he made to Flanigan clients. App., *infra*, 6a. In 1994 or 1995, Flanigan copied the Standard Works into its word processing system, and paper copies of the Standard Works were given to Flanigan employees. *Id.* at 7a.

In 1995, USI acquired Flanigan, and the Standard Works were made available to USI's employees. App., *infra*, 7a. USI incorporated the Standard Works into some client proposals through 2005. *Id.* at 8a.

2. In February 2005, nearly fourteen years after Haughey left its employment without returning the binders and after respondent knew that Haughey retained copyrighted material for at least six accounts, and over a decade after the alleged acts of infringement, respondent sued USI and Haughey for copyright infringement. App., *infra*, 8a-9a, 44a. USI moved for partial summary judgment, contending that the Copyright Act's statute of limitations, 17 U.S.C. § 507(b), cut off any claim of infringement that occurred more than three years before the filing of the complaint. App., *infra*, 8a-9a. The district court denied USI's motion, holding that the "discovery rule" applied rather than the earlier-commencing "injury rule" (under which the limitations period starts running at the time the plaintiff has a completed cause of action). *Id.* at 9a.

At trial, the district court presented special interrogatories to the jury asking, *inter alia*, whether "[p]rior to February 9, 2002, should [respondent]

have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" App., *infra*, 9a-10a. The jury found the defendants liable for copyright infringement and answered the special interrogatory in the negative, *id.* at 10a, thereby allowing respondent to recover for all of the alleged acts of infringements of its copyrights dating back to July 1992. *Id.* at 7a n.2. Based on the broad temporal scope of the claim, the jury awarded respondent $16,561,230 against USI and $2,297,397 against Haughey. *Id.* at 9a.

After the jury issued its verdict, the district court ordered a new trial on the ground that the weight of the evidence did not support the jury's answer to the special interrogatory regarding pre-February 9, 2002 acts of infringement. App., *infra*, 10a. In ordering a new trial on damages, the district court identified numerous pre-2002 warning signs of infringement that respondent unreasonably failed to investigate to protect its copyright, including that: (1) Haughey had respondent's copyrighted works in his possession when respondent terminated him in 1991; (2) Haughey failed to honor his obligation to return the works when he was terminated; (3) Haughey's only purpose for having those works was to copy and use them; (4) Haughey joined a competitor of respondent following his termination; and (5) after Haughey's departure, respondent learned that he had solicited respondent's clients in violation of his employment and termination agreements with respondent. *Id.* at 12-13a, 48a-59a. *See also id.* at 66a (granting partial summary judgment).

In a second jury trial on damages arising from petitioners' infringement during the three-year period before the action was brought (February 9, 2002 to February 8, 2005), the jury awarded respondent $1,400,000 against USI and $268,000 against Haughey. App., *infra*, 13a.

3. The court of appeals reversed. App., *infra*, 38a. The court held that federal statutory claims, including claims under the Copyright Act, are presumptively subject to a discovery-accrual rule, and thus that respondent's claim did not accrue until it first discovered the actual acts of infringement in November 2004. App., *infra*, 32a-33a.

In so holding, the court of appeals read this Court's decision in *TRW, Inc. v. Andrews*, 534 U.S. 19 (2001), to command federal courts to apply a default discovery-accrual rule for federal statutory claims. Specifically, the court of appeals adopted a rule that, "in the absence of a contrary directive from Congress, we apply the federal discovery rule." App., *infra*, 16a (internal quotations omitted).

Applying that default discovery-accrual rule, the court of appeals held that the Copyright Act is subject to a discovery rule because Congress had not specified the time of injury (infringement) as the accrual trigger. The Third Circuit also rejected USI's argument that the Copyright Act is better read to impose an injury-accrual rule, reasoning instead that "the text and structure of the Copyright Act actually favor use of the discovery rule." App., *infra*, 17a.

Having decided that the discovery-accrual rule applies to copyright infringement claims, the court of appeals next held that the district court erred in finding that respondent was on inquiry notice of any copyright infringement long before February 2002. App., *infra*, 25a-33a. Relying on its earlier decision in *Merck & Co. Securities, Derivative & "ERISA" Litigation*, 543 F.3d 150 (3d Cir. 2008), *cert. granted*, No. 08-905 (May 26, 2009), the court of appeals ruled that the multiple warning signs of infringement that the district court had identified were, as a matter of law, irrelevant. In the court of appeals' view, respondent's knowledge of Haughey's improper retention of the copyrighted works, his propensity to engage in misconduct, and his continued possession of the Standard Works did not constitute specific evidence of each element of a copyright infringement claim and thus did not place respondent on notice of its claim. App., *infra*, 27a-31a.[1]

REASONS FOR GRANTING THE WRIT

I. THIS COURT SHOULD RESOLVE THE CIRCUIT CONFLICT BY RECONFIRMING ITS LONGSTANDING RULE, REFLECTED IN THE CONCURRENCE IN *TRW V. ANDREWS* AND LATER CASES, THAT FEDERAL

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[1] The court of appeals remanded for consideration of USI's alternative ground for a new trial on damages – namely, whether the weight of the evidence supported the jury's apportionment and the size of the verdict. App., *infra*, 38a.

STATUTORY CLAIMS PRESUMPTIVELY ACCRUE AT THE TIME OF INJURY, AND NOT AT THE TIME OF DISCOVERY.

This Court's review is warranted because, with the exception of the Fifth Circuit, the federal courts of appeals (including the Third Circuit here) have broadly departed from this Court's longstanding precedent establishing that the default rule for accrual of a federal statutory claim is the date of the injury, not the date of discovery.

Federal statutory causes of action regularly specify a limitations period, generally measured from the date that the claim "arises" or "accrues."[2] The background rule has long been that a claim arises or accrues when the injury giving rise to the cause of action occurs. *See, e.g., TRW, Inc. v. Andrews,* 534 U.S. 19, 36-37 (2001) (Scalia, J., concurring). When Congress wishes to depart from that rule, it generally specifies that the limitations

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[2] *See, e.g.*, 7 U.S.C. § 25 (cause of action related to misconduct in commodity exchanges "shall be brought not later than two years after the date the cause of action arises"); 22 U.S.C. § 2356 (cause of action against United States related to foreign-held patents must be brought "within six years after the cause of action arises"); 7 U.S.C. § 2305(c) (cause of action for unfair trade practices affecting agricultural producers must be "commenced within two years after the cause of action accrued"); 12 U.S.C. § 1977(1) (cause of action challenging bank tying arrangements must be "commenced within four years after the cause of action accrued").

period runs from "the date of the discovery" of the injury (*e.g.*, 18 U.S.C. § 1030(g)) or "after such discovery should have been made by the exercise of reasonable diligence" (*e.g.*, 15 U.S.C. § 77m). *See TRW,* 534 U.S. at 38 (Scalia, J., concurring). Absent such an express statutory directive, "[t]he only other cases in which [this Court] ha[s] recognized a prevailing discovery rule ... were decided in two contexts, latent disease and medical malpractice, 'where the cry for such a rule is loudest'" because the plaintiff typically is unaware of and unable to learn of her injury at the time it is inflicted. *TRW*, 534 U.S. at 27 (quoting *Rotella v. Wood*, 528 U.S. 549, 555 (2000)) (alteration omitted).

Even though this Court has repeatedly explained that the standard rule of accrual is that the limitations period commences at the time of injury, *TRW*, 534 U.S. at 37-38 (Scalia, J., concurring) (citing cases setting forth the injury-accrual rule), the *lower* federal courts have been "'apply[ing] a discovery accrual rule when a statute is silent on the issue,'" *TRW*, 534 U.S. at 27 (quoting *Rotella*, 528 U.S. at 555). They were doing so at the time of *TRW*. *Id.* And, as revealed by this case and a survey of other circuits, most of them are still doing so today.

This Court's review is needed to bring the law in the federal courts of appeals back into line with this Court's precedent and the background injury-accrual rule against which Congress legislated. As advocated in the concurring opinion in *TRW*, this Court should reconfirm "the rule that a statute of limitations [on a federal cause of action] begins to

run when the cause of action is complete," absent contrary indications in the statute. 534 U.S. at 39 (Scalia, J., concurring). The discovery accrual rule that now (outside the Fifth Circuit) largely defines the circuit landscape is a "bad wine of recent vintage," *id.* at 37 (Scalia, J., concurring), and this Court's authoritative correction is warranted.

A. The Court Of Appeals' Enforcement Of A Default Discovery-Accrual Rule Conflicts With This Court's Longstanding Precedent.

1. The Copyright Act provides that infringement claims must be brought "within three years after the claim accrued." 17 U.S.C § 507(b). The Act does not specify whether the accrual date runs from the time of injury (the date that infringement occurs) or from the time of discovery (the date that the plaintiff learned or reasonably should have learned of the infringement). The court of appeals held that when, as here, Congress has not specified the accrual date for a federal statutory claim, the default rule is that the claim accrues at the time the injury is discovered or should have been discovered. App., *infra,* 16a.

The court of appeals' adoption and application of that default discovery-accrual rule squarely conflicts with this Court's precedent. This Court has repeatedly admonished that, unless Congress directs otherwise, "*the standard rule*" governing accrual of federal statutory claims is that "the limitations period commences when the plaintiff has 'a complete

and present cause of action.'" *Bay Area Laundry & Dry Cleaning Pension Trust Fund v. Ferbar Corp. of Cal., Inc.*, 522 U.S. 192, 195, 201 (1997) (quoting *Rawlings v. Ray*, 312 U.S. 96, 98 (1941)) (emphasis added). This "standard rule" for gauging the time of accrual has deep roots, dating back more than a century to *Clark v. Iowa City*, 87 U.S. 583 (1875), which stated that "[a]ll statutes of limitations begin to run when the right of action is complete," *id.* at 589.

The rule's modern pedigree remains strong – the Court has reconfirmed that standard rule twice within the last four years. *Wallace v. Kato*, 549 U.S. 384, 388 (2007) (applying standard rule and holding that plaintiff's false arrest claim under 42 U.S.C. § 1983 accrued "as soon as the allegedly wrongful arrest occurred"); *Graham County Soil & Water Conserv. Dist. v. United States* ex rel. *Wilson*, 545 U.S. 409, 418, 419 (2005) (applying standard rule and holding that plaintiff's retaliation claim under False Claims Act accrued when retaliation occurred).

Under this Court's standard injury-accrual rule, a cause of action becomes "complete and present," and hence accrues, when "the plaintiff can file suit and obtain relief." *Bay Area Laundry*, 522 U.S. at 201; *see also TRW*, 534 U.S. at 37 (Scalia, J., concurring) ("[A] statute of limitations begins to run at the time the plaintiff 'has the right to apply to the court for relief.'") (quoting H. Wood, Limitation of Actions § 122a at 684 (4th ed. 1916)). And the time that a plaintiff "can file suit and obtain relief" is the moment when the defendant's actions cause the plaintiff a legally cognizable injury. *See Wallace*,

549 U.S. at 391 ("Under the traditional rule of accrual ... the tort cause of action accrues, and the statute of limitations commences to run, when the wrongful act or omission results in damages. The cause of action accrues even though the full extent of the injury is not then known or predictable.") (internal quotations omitted); *Bay Area Laundry*, 522 U.S. at 201 (plaintiff's claim under federal statute addressing employer withdrawal from pension funds accrued when the defendant missed the statutorily required payment); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 338 (1971) ("Generally, a cause of action accrues and the statute [of limitations] begins to run when a defendant commits an act that injures a plaintiff's business."); *Rawlings*, 302 U.S. at 98 (applying the standard rule to claim under federal banking law).

Unlike the discovery rule adopted by the Third Circuit here, this Court's 130-year-old default injury-accrual rule is consonant with the animating purpose of statutes of limitations. First, both the injury-accrual rule and limitations periods foster the diligent prosecution of claims and encourage plaintiffs promptly to investigate their rights and not sleep on them. *United States v. Kubrick*, 444 U.S. 111, 123 (1979). Second, by requiring plaintiffs to bring suit within a specified period of time, both limitations periods and the standard injury rule provide repose and stability, while protecting potential defendants against the difficulties of defending against "stale claims." *Order of R.R. Telegraphers v. Railway Express Agency, Inc.*, 321 U.S. 342, 349 (1944). Third, statutes of limitations, undergirded by the injury accrual rule, promote the

integrity of the litigation process by ensuring that "the search for truth [is not] seriously impaired by the loss of evidence, whether by death or disappearance of witnesses, fading memories, [or] disappearance of documents." *Kubrick*, 444 U.S. at 117. Fourth, statutes of limitations are intended to anchor the expectations of potential litigants in a set of consistent and settled rules, and thereby create certainty and uniformity in the administration of justice. *See Wood v. Carpenter*, 101 U.S. 135, 139 (1879). The discovery rule endorsed by the Third Circuit here, by contrast, undermines each of those principles.[3]

2. Contrary to the court of appeals' supposition (App., *infra*, 16a), nothing in this Court's decision in *TRW* "require[d]" it to apply a default discovery-accrual rule. In fact, in *TRW* this Court expressly *rejected* the Ninth Circuit's holding "that a generally applied discovery rule controls this case." 534 U.S. at 28. In so holding, the Court emphasized that it had historically limited application of the discovery rule of accrual to the special circumstances of cases involving fraud, latent disease, and medical malpractice. *Id.* at 27 (citing cases); *see also id.* at 37-38 (Scalia, J., concurring). Consistent with a century of precedent, the Court then held that the

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[3] The limitations period on a federal statutory claim that has accrued is generally subject to equitable tolling. *See Young v. United States*, 535 U.S. 43 (2002); *see also Wallace*, 549 U.S. at 388-389 (noting distinction between accrual and tolling). The court of appeals did not rest its decision on equitable tolling principles.

standard injury-accrual rule governed claims under the Fair Credit Reporting Act. *Id.* at 28-34.

The Court's rejection in *TRW* of a default discovery rule was reconfirmed by the Court's subsequent decisions again applying the injury-accrual rule in *Graham County* (545 U.S. at 418), in 2005, and *Wallace* (549 U.S. at 388), in 2007. The Third Circuit's decision here thus is in irreconcilable conflict with this Court's precedent.

B. The Third Circuit's Default Discovery-Accrual Rule Conflicts With The Fifth Circuit's Adoption Of A Default Injury-Accrual Rule

The Third Circuit's adoption and application of its default "federal discovery rule," App., *infra*, 16a, squarely conflicts with the Fifth Circuit's recent adoption of a default injury-accrual rule for federal statutes of limitations.

In *Frame v. City of Arlington*, No. 08-10630, 2009 WL 1930045 (5th Cir. July 7, 2009), the Fifth Circuit addressed when a claim arises under Title II of the Americans with Disabilities Act ("ADA"), 42 U.S.C. § 12131 *et seq.* Because the statutory text is silent, the Fifth Circuit resorted to this Court's standard default rule that "[a] claim ordinarily accrues when a plaintiff has a complete and present cause of action or, stated differently, when the plaintiff can file suit and obtain relief." 2009 WL 1930045 at *6 (quoting *Wallace*, 549 U.S. at 388, and *Bay Area Laundry,* 522 U.S. at 201 (internal

quotations omitted)). The Fifth Circuit emphasized that "[t]he United States Supreme Court has declined to adopt a general federal discovery rule," and "has limited its own use of the discovery rule to cases alleging fraud or medical malpractice." *Id.* at *7 (citing *TRW*, 534 U.S. at 27); *see id.* (citing *TRW*, 534 U.S. at 37 (Scalia, J., concurring). Because ADA violations are not inherently "latent," like medical injury or malpractice claims, the Fifth Circuit held – in direct opposition to the default rule adopted by the Third Circuit here – that the default injury-accrual rule governed the federal statutory claim. *Frame*, 2009 WL 1930045 at *7.

Other courts of appeals, however, have (like the Third Circuit) overlooked this Court's consistent precedent and enforced a default discovery-accrual rule. *See, e.g.*, *Guilbert v. Gardner*, 480 F.3d 140, 148 (2d Cir. 2007) (applying a default time of discovery rule to an ERISA claim); *Comcast of Ill. X v. Multi-Vision Elecs., Inc.*, 491 F.3d 938, 944 (8th Cir. 2007) (applying a default time of discovery accrual rule to a copyright claim); *Porter v. Ray*, 461 F.3d 1315, 1323 (11th Cir. 2006) (applying a default time of discovery accrual rule to a Section 1983 claim); *Limestone Dev. Corp. v. Vill. of Lemont, Ill.*, 520 F.3d 797, 801 (7th Cir. 2008) (applying a default time of discovery accrual rule to a RICO claim). As the Third Circuit noted, a number of courts of

appeals have applied their default time of discovery accrual rule to Copyright Act claims.[4]

Two courts have recognized *Wallace*, and cited it for the correct proposition that accrual of claims under federal statutes occurs as soon as the plaintiff has a complete cause of action. Yet, both inexplicably went on to cite and apply pre-*Wallace* circuit court precedents holding that a default time of discovery accrual rule governs as a general matter, without explaining their departure from this Court's precedent. *See Greenwood v. New Hampshire Pub. Utils. Comm'n*, 527 F.3d 8, 14 (1st

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[4] *See* App., *infra*, 15a (citing *Roger Miller Music, Inc. v. Sony/ATV Publishing, LLC*, 477 F.3d 383 (6th Cir. 2007); *Gaiman v. McFarlane*, 360 F.3d 644 (7th Cir. 2004); and *Comcast of Ill. X v. Multi-Vision Elecs., Inc.*, 491 F.3d 938 (8th Cir. 2007)). The court of appeals also cited (App., *infra*, 15a) *Lyons Partnership v. Morris Costumes, Inc.*, 243 F.3d 789 (4th Cir. 2001); *Daboub v. Gibbons*, 42 F.3d 285 (5th Cir. 1995); and *Stone v. Williams*, 970 F.2d 1043 (2d Cir. 1992), all of which were decided before *TRW*, and none of which addresses the issue of which default accrual rule to apply. The only case cited by the court of appeals that does address the issue, *Polar Bear Productions, Inc. v. Timex Corp.*, 384 F.3d 700 (9th Cir. 2004), applied the discovery rule by analogy to the fraudulent concealment doctrine, a rationale expressly rejected in *TRW*, 534 U.S. at 27. The sole case cited by the court of appeals that mentions *TRW* is *Warren Freedenfeld Associates v. McTigue*, 531 F.3d 38 (1st Cir. 2008), which noted that, in the wake of *TRW*, a "smattering" of judges and commentators questioned the vitality of the discovery rule in copyright infringement cases, but declined to decide the issue, *id.* at 46 n.3.

Cir. 2008); *Cooey v. Strickland*, 479 F.3d 412, 416 (6th Cir. 2007).

Other courts have expressed confusion about *TRW*'s meaning, without resolving which default accrual rule to apply, *e.g.*, *Johnson v. Riddle*, 305 F.3d 1107, 1114 n.3 (10th Cir. 2002), or have misread it as condoning use of the discovery rule when a statute is silent as to congressional intent, *Skwira v. United States*, 344 F.3d 64, 82 (1st Cir. 2003).

Highlighting the divide between, on the one hand, this Court's century of precedent and the Fifth Circuit's default injury rule and, on the other hand, the contrary circuit law misapprehending *TRW* is the Ninth Circuit's recent decision in *Mangum v. Action Collection Service, Inc.*, No. 08-35191, 2009 WL 2367157 (9th Cir. Aug. 4, 2009). As previously noted, this Court reversed the Ninth Circuit's application of a default discovery-accrual rule in *TRW*. Yet, in *Mangum*, the Ninth Circuit resurrected its "general federal rule ... that a limitations period begins to run when the plaintiff knows or has reason to know of the injury which is the basis of the action." *Id.* at *3. In so holding, the Ninth Circuit ignored the *Clark-Wallace* line of cases establishing the standard injury-accrual rule, and explained that *TRW* was simply "food for thought" and "worth musing on." *Id.* at *4.

C. The Question Of What Accrual Rule Governs Federal Statutory Claims Is

Important And Frequently Recurring

Given the persisting and expanding gap between this Court's precedent and the rule of law enforced in the courts of appeals – other than the Fifth Circuit – only this Court's intervention can bring needed clarity to federal law governing the default rule for accrual of federal statutory claims. Such clarity is needed not only for litigants, but also for Congress, which now faces a cacophony of background rules against which it must legislate. *Cf. Graham County*, 545 U.S. at 418 (noting that Congress has long operated against the backdrop of the standard rule that federal claims accrue at the time of injury).

Furthermore, while Congress could protect itself prospectively, the sheer number of already-existing federal statutes giving rise to causes of action testifies to the importance and common recurrence of the question presented. *See Kubrick*, 444 U.S. at 125 (limitations periods are "as ubiquitous as the statutory rights ... to which they are attached or are applicable"). Only this Court can provide the certainty that statutes of limitations are intended to engender by confirming that, in the absence of contrary direction from Congress, claims under federal statutes accrue when the plaintiff suffers the injury that forms the basis of the claim.

Moreover, this case, which involves a claim under the Copyright Act, presents a proper framework for reconfirming that federal statutes of limitations are presumptively subject to an injury-accrual rule. Congress enacted the Copyright Act's

statute of limitations with the background knowledge that, by their very nature, copyright infringement claims involve the defendant's distribution of the plaintiff's work, which commonly is a public act. *See Auscape Int'l v. Nat'l Geographic Soc'y*, 409 F. Supp. 2d 235, 244-246 (S.D.N.Y. 2004) ("[A]t the [legislative] hearings, it was pointed out that 'copyright infringement by its very nature is not a secretive matter.' ... To the contrary, it is 'an act which normally involves the general publication of the work or its public performance.'") (quoting *Copyrights - Statute of Limitations: Hearing on H.R. 781 Before the House Comm. on the Judiciary, Subcomm. 3*, 84th Cong. at 11, 51 (1955)).

Furthermore, application of a discovery rule in this context could have a chilling effect on speech and creative endeavors because authors could well be deterred from publishing their works if they faced open-ended liability for infringement – both temporally, and with respect to the innumerable variety of authors who might someday complain that a particular work contains some small amount of previously copyrighted material. This case is a perfect illustration. The events underlying respondent's claim predate petitioner USI's acquisition of the Flanigan firm; indeed, they predate even USI's creation. The Third Circuit's legal rule requiring speakers to anticipate potential liability arising from publications for more than a decade creates such a significant prospect of overhanging liability that communication will inevitably be stifled.

Enforcement of this Court's standard injury-accrual rule, by contrast, would encourage copyright holders to police use of their works and could engender the more liberal granting of licensing rights to aspiring artists, furthering creative and technological advancement. *See* Note, *Discovering Injury? The Confused State of the Statute of Limitations for Federal Copyright Infringement*, 17 Fordham Intell. Prop. Media & Ent. Law J. 1125, 1164 (2007).[5]

Application of the injury accrual rule in the copyright infringement context is substantially supported by Congress's purpose in adding a statute of limitations to the Copyright Act: to establish a concrete and uniform timeframe in which to bring copyright infringement claims. At that time, in 1957, the Act's limitations period was otherwise subject to state law and thus vulnerable to manipulation through forum shopping. *See Auscape Int'l*, 409 F. Supp. 2d at 244-246. But notably the applicable state laws all employed the injury rule of accrual, and there is no indication that Congress intended to so dramatically depart from that uniform trigger for instituting suit.

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[5] The court of appeals' reliance (App., *infra*, 17a-18a) on the Copyright Act's use of the term "accrues" rather than "arises" was misplaced. Just as a cause of action "arises" "when a party has a right to apply to a proper tribunal for relief," *Black's Law Dictionary* (6th ed. 1990), a cause of action "accrues" "when a suit may be maintained thereon," *id.*

Indeed, as the leading copyright treatises have notably concluded in supporting recognition of the injury rule, such a change would have run counter to Congress's goal of increased certainty to have adopted an open-ended discovery rule. *Id.* at 246-247; *see also* 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 12.05, at 12-150.4, 12-150.8[B][2] (2009) (citing *Auscape*, *supra*, as "the best articulation to date of how to compute the Copyright Act's statute of limitations," and urging the federal courts of appeals to follow its lead); 5 William F. Patry, *Patry on Copyright* § 20:20 (2008) (lauding the *Auscape* court's "extremely thorough and well reasoned review of the issues").

The Third Circuit concluded that copyright infringement is an area of law that "cries out" for use of the discovery rule, reasoning that infringement is not always immediately apparent to the copyright owner. App. 22a-23a. But this Court has identified only three areas of the law that "cry out" for use of the discovery rule – fraudulent concealment, latent disease, and medical malpractice – because the very nature of those injuries commonly *prevents* the plaintiff from becoming aware of the injury until some time after the statutory violation occurs. *See TRW*, 534 U.S. at 27 (citing cases). Unlike those types of injuries, copyright infringement does not "cry out" for use of the discovery rule because it is ordinarily public from the outset and nothing in the nature of the act *prevents* the plaintiff from becoming aware of the injury. *See* S. Rep. No. 85-1014 (1957), *reprinted in* 1957 U.S.C.C.A.N. 1961, 1962 ("[D]ue to the nature of publication of works of art ... generally the person injured receives

reasonably prompt notice or can easily ascertain any infringement of his rights.").

II. IN THE ALTERNATIVE, THE PETITION SHOULD BE HELD PENDING THIS COURT'S DECISION IN *MERCK & CO. v. REYNOLDS*, NO. 08-905.

This Court's intervention is warranted for a second reason. Assuming the discovery rule applies, *but see* Part I, *supra*, this case presents the same basic question currently pending before this Court in *Merck & Co. v. Reynolds*, No. 08-905. In *Merck*, this Court granted review to decide, for those cases in which the discovery-accrual rule applies (*i.e.*, fraud cases), the point at which plaintiffs have sufficient notice of their potential claims to trigger the running of the statute of limitations.[6]

In *Merck*, the Third Circuit held that the limitations period for a securities fraud lawsuit against a drug-maker who allegedly misled investors regarding the safety of one of its products was not triggered by any or all of the following "storm warnings" of the plaintiffs' claims: (1) public debate

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[6] The question presented in *Merck* is: "Did the Third Circuit err in holding, in accord with the Ninth Circuit but in contrast to nine other Courts of Appeals, that under the 'inquiry notice' standard applicable to federal securities fraud claims, the statute of limitations does not begin to run until an investor receives evidence of scienter without the benefit of any investigation." Petition for a Writ of Certiorari at i, *Merck & Co. v. Reynolds*, No. 08-905 ("Merck Pet.").

surrounding the safety of that product, (2) an FDA Warning Letter admonishing the drug-maker for disseminating allegedly misleading safety information in connection with the product, (3) a statement by the president of the drug-maker's research laboratories that the product could cause heart attacks, and (4) the filing of product liability and consumer fraud lawsuits against the drug-maker based on the drug-maker's alleged failure to warn consumers of the alleged dangers of the product. 543 F.3d at 165-72. In its wholesale rejection of the relevance of those "storm warnings" to the accrual of the cause of action, the Third Circuit held that only evidence establishing the precise elements of the statutory claim – which, in *Merck*, included scienter – is sufficient to accrue a cause of action under the discovery rule.

In this case, the Third Circuit applied its decision in *Merck* and, in particular, its rule – now under review by this Court – that only notice of the exact elements of a claim provides sufficient discovery of a claim to trigger the statute of limitations. App., *infra*, 30a (citing *Merck*, 543 F.3d at 164). Relying on the *Merck* rule, the court here held that respondent's claim was not time-barred under the discovery rule because the multiple warnings of USI's alleged infringement that the Graham Company received did not establish each precise element of the copyright claim. *Compare* App., *infra*, 25a-33a, *with Merck*, 543 F.3d at 165-72. Those storm warnings included evidence that: (1) Haughey had respondent's copyrighted works in his possession when respondent terminated him in the fall of 1991; (2) Haughey failed to return the works

when he was terminated; (3) Haughey's only purpose for having those works was to copy and use them; (4) Haughey joined a competitor of respondent after being terminated; and (5) after Haughey's departure, respondent caught him soliciting respondent's clients in violation of his employment and termination agreements with respondent. App., *infra*, 12a-13a, 48a-59a. Governed by its *Merck* decision, the Third Circuit in this case completely discounted that evidence because it did not furnish specific evidence of each element of respondent's infringement claim. *Id.* at 25a-33a.

Furthermore, as in *Merck*, this case would likely have been decided differently had it been litigated in a different circuit. For instance, under the Second, Fourth, Fifth, Eighth and Eleventh Circuits' "storm warnings" approach, respondent's knowledge of Haughey's prior misconduct and his continued access to the copyright materials would likely have triggered the running of the limitations period at the time of infringement, because such knowledge would have prompted a reasonable copyright holder to investigate whether Haughey was infringing. Similarly, in the circuits applying the investigation approach, a court would likely have held that a timely investigation would have uncovered Haughey's infringement well before February 9, 2002.

Although *Merck* was a securities fraud case, the Third Circuit's opinion in this case relied heavily on its earlier decision in *Merck* and other securities fraud cases in analyzing the inquiry-notice issue, confirming that the Third Circuit applies a single

inquiry-notice standard – the *Merck* standard – to determine when a discovery-accrual rule has been triggered. *See* App., *infra*, 25a-33a (applying *Merck* to conclude that evidence of Haughey's wrongdoing did not constitute storm warnings of his copyright infringement).

Accordingly, this Court's decision in *Merck* is likely to cast relevant light on the court of appeals' application of its discovery-accrual rule in this case. In the event the Court does not review the first question presented, the petition should be held pending this Court's disposition of *Merck* and disposed of in light of the Court's decision in that case.

CONCLUSION

The petition for a writ of certiorari should be granted with respect to the first question presented or alternatively held pending this Court's decision in *Merck & Co. v. Reynolds*, No. 08-905, and disposed of in light of the Court's decision in that case.

Respectfully submitted,

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August 28, 2009

APPENDIX

APPENDIX TO THE PETITION FOR A WRIT OF CERTIORARI

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UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

NOS. 08-2007, 08-2111

WILLIAM A. GRAHAM COMPANY, D/B/A THE GRAHAM COMPANY, PLAINTIFF-APPELLANT,

V.

THOMAS P. HAUGHEY; USI MIDATLANTIC, INC., DEFENDANTS-APPELLEES.

Appeal from the United States District Court for the Eastern District of Pennsylvania in 05-cv-00612, District Judge Hon. Harvey Bartle, III

Argued and Submitted: March 3, 2009
Filed: June 5, 2009

Before: SCIRICA, Chief Judge, SLOVITER, and HARDIMAN, Circuit Judges.

SLOVITER, Circuit Judge

We face an issue of first impression for this court--whether the discovery rule or the injury rule governs the accrual of claims under the Copyright Act, which has a three-year statute of limitations for civil actions, 17 U.S.C. § 507(b).

Under the injury rule, a claim accrues, and the statute of limitations begins to run, when the plaintiff suffers a legally cognizable injury. Therefore, if the injury rule applies in this case, appellant/cross-appellee William A. Graham Company ("Graham") cannot recover on its claims

that appellees/cross-appellants USI MidAtlantic, Inc. and Thomas P. Haughey (collectively, "USI") infringed its copyrights more than three years before Graham filed suit. Conversely, if the discovery rule applies, then Graham's cause of action for each act of infringement did not accrue until Graham discovered, or with reasonable diligence should have discovered, the injury underlying its claim. Thus, if the discovery rule applies, Graham may be able to recover on acts of infringement that occurred more than three years before it filed suit.

The District Court concluded that the discovery rule applied to civil actions under the Copyright Act and the case proceeded to a jury trial. The jury found that Graham was not on notice of USI's infringement prior to February 9, 2002--leading to its conclusion that none of Graham's infringement claims was time-barred. That jury entered a verdict in Graham's favor in the amount of $16,561,230 against USI MidAtlantic and $2,297,397 against Haughey. However, the District Court set aside the jury's finding and ultimately held that Graham was time-barred from recovering for acts of infringement that occurred more than three years before it filed suit in light of certain "storm warnings" of those earlier acts of infringement.

The case then proceeded to a second jury trial on the issue of damages for the three year period preceding Graham's filing; the second jury entered a verdict for Graham in the amount of $1.4 million against USI MidAtlantic and $268,000 against Haughey. Thus, if we determine that the District Court correctly held that the discovery rule governs

the accrual of claims under the Copyright Act, we must then decide whether the Court correctly applied that rule to the facts of this case.

Finally, USI cross-appeals and renews its contention, rejected by the District Court, that Graham cannot recover on any of its claims because it failed to prove a legally sufficient causal nexus between the infringement and USI's profits awarded to Graham as compensation for the infringement.

I. BACKGROUND

A. Facts

Graham is an insurance brokerage firm that provides property and casualty insurance services to businesses. Haughey worked for Graham as a producer (salesperson) from January 1985 through September 1991. Producers serve as intermediaries between their clients and insurance companies. Graham's producers solicit clients by first preparing a risk assessment study, called a survey and analysis, that evaluates the client's needs. In order to prepare the survey and analysis, a producer generally must spend a significant amount of time learning the client's business, assessing its insurance needs, and reviewing its current policies. The producer then prepares a written proposal that contains recommendations addressing the client's needs as identified in the survey and analysis. If the client agrees to Graham's proposal, it places the client with an insurance company that actually writes the insurance. Graham receives a commission from the insurance company which issues the policy

and in addition receives a service fee from its client.

In the 1980s, Graham's president, William Graham, developed form language called the Standard Paragraphs to be used by Graham's producers to prepare survey and analysis documents and coverage proposals. The Standard Paragraphs were not copyrighted.

Sometime in 1990, Graham began to prepare the Standard Survey and Analysis and the Standard Proposal (collectively, the "Standard Works" or the "Works"). The Standard Works, which were each hundreds of pages long, included some language from the Standard Paragraphs as well as new material. After draft versions of the Standard Works were distributed to Graham's eight producers, including Haughey, the first edition of the Standard Survey was completed around March or April 1991 and it was then copyrighted. The first edition of the Standard Proposal was completed in the fall of 1991 and it also was copyrighted. Graham placed copyright notices on client documents that incorporated the Standard Works and registered certain portions of the Works with the Copyright Office.

Graham's producers use the Standard Works as templates for client-specific proposals. The Standard Works include plain English explanations of insurance policies and concepts that Graham's producers can copy into client-specific materials and that clients can easily understand. The Standard Works also serve as reference materials to guide Graham's producers in the development of client-specific materials. Graham's president testified that

the Standard Works are "absolutely essential" to Graham's business "[b]ecause they are probably the most important way that we can establish creditability [sic] with a perspective [sic] client." App. at 371.

Haughey's employment with Graham was terminated in September 1991, apparently because Haughey's clients were primarily smaller, family-run businesses and Graham sought at that time to attract larger businesses as clients. Haughey testified at trial that he left Graham on amicable terms and he received a thirty-thousand dollar severance package payable over three months. Graham and Haughey also entered into a termination agreement in which Haughey reaffirmed his promise in his employment contract to keep company information confidential and to turn over all of Graham's "papers and the information contained therein" in Haughey's possession upon termination of his employment. App. at 1987. Nonetheless, following his termination Haughey retained binders that contained at least part of the Standard Works.

Shortly thereafter, Haughey got a job at a smaller insurance brokerage firm, Flanigan, O'Hara & Gentry ("FOG"). At about the same time that Haughey joined FOG, Haughey solicited certain of Graham's clients in violation of his termination agreement. Graham's executive vice president (Judith Dooling) sent Haughey a letter memorializing a conversation in which Haughey agreed to cease

such solicitation pending negotiation of an agreement to sell FOG and Haughey certain accounts.[1]

In November 1991, Graham, FOG and Haughey entered into an agreement in which Graham sold FOG six of Haughey's prior accounts. Graham provided FOG and Haughey with materials related to those six accounts, including proposals made to those clients in the current and prior year which included Graham's copyrighted materials. Haughey also specifically promised to hold all "knowledge and information concerning" the Standard Works "in trust [and] in confidence for the sole benefit of Graham," to return all "papers and information" obtained from Graham other than information related to the accounts sold, app. at 2084, and not to "use, divulge, or otherwise disclose" any of Graham's confidential information, app. at 2082.

Notwithstanding his promise, Haughey subsequently infringed Graham's copyrighted material in the Standard Works by including it in proposals to FOG's clients. Haughey first included Graham's copyrighted material in a proposal to a

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[1] This letter was not presented in evidence before the first jury, which, as previously stated, concluded that Graham was not time-barred from recovering for acts of infringement occurring more than three years prior to Graham's filing of the instant case. However, the District Court relied in part on Haughey's improper solicitation of Graham's clients as evidence that Graham was on notice of USI's copyright infringement as early as the fall of 1991.

client in July 1992.[2] It is unclear whether Haughey copied this material from his own copy of the Standard Works or whether he used a copy of the 1992 version of the Standard Works (which Haughey had not obtained before the termination of his employment with Graham) brought to FOG by another former Graham employee, Don Boresen, in the spring of 1992. In any event, at some time in 1994 or 1995, FOG copied the entire 1992 version of the Standard Works into its word processing system; paper copies were also distributed to FOG's employees.

In 1995, FOG was acquired by USI Holdings and subsequently merged with two other entities to form USI MidAtlantic. The Standard Works were made available to USI employees.

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[2] USI contends that Haughey's testimony supports an inference that his infringement began immediately after his arrival at FOG in November 1991, but the portions of his testimony relied upon by USI do not establish a date of infringement. USI also notes that, during opening arguments to the jury, Graham made statements that USI's improper use of the Standard Works began in 1991, and contends that Graham should be held to these statements. However, this court has held that a "judicial admission[] must be unequivocal" to be effective, *Glick v. White Motor Co.*, 458 F.2d 1287, 1291 (3d Cir. 1972), and Graham's statements do not unequivocally state that an act of infringement (as op-posed to possession of the Works) occurred in 1991. Moreover, Graham had the burden to prove that acts of infringement occurred, and its evidence established a date of first infringement in July 1992.

According to Graham's expert, Haughey and USI copied Graham's copyrighted language from the Standard Works into at least 857 proposals over thirteen years (1992 through 2005). USI personnel testified that its written proposals to clients (including, presumably, those with infringing language) were an important part of the sales process--in fact, Haughey even testified that some clients were convinced to purchase insurance through USI on the basis of the proposals --and that it was USI's practice to review the proposal's contents "page by page" with the client. App. at 571. Moreover, FOG had nothing comparable to the Standard Works when Haughey first arrived and, as noted above, FOG and USI made electronic and paper copies of the Standard Works available to their employees and encouraged them to use the Standard Works when developing client-specific materials. On the other hand, most of USI's proposals during this period did not include infringing language, and even those that did include infringing language did so only on a few pages.

It was USI's practice to keep proposals to clients confidential, and Graham did not discover USI's infringement until November 2004, when a client showed one of Graham's producers a copy of a USI proposal to the client.

B. Procedural History

Graham filed this action on February 8, 2005, asserting claims for copyright infringement against USI and Haughey as well as a breach of contract claim against Haughey. USI moved for partial

summary judgment, contending that any infringement that occurred more than three years prior to filing of the complaint was time-barred under the Copyright Act's three-year statute of limitations for civil actions. The District Court denied the motion, holding that the discovery rule applied to infringement claims under the Copyright Act and that therefore Graham was entitled to present evidence to demonstrate that it could not have reasonably discovered USI's infringement before it actually did so.[3]

The case proceeded to a jury trial.[4] After Graham voluntarily dismissed the breach of contract claim that it had asserted against Haughey, the jury reached a verdict in favor of Graham on the copyright claim in the amount of $16,561,230 against USI and $2,297,397 against Haughey.[5] The District Court

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[3] The District Judge who initially heard this matter and who ruled on the statute of limitations motion died in 2005. The successor District Judge reaffirmed that ruling.

[4] We note that the District Court provided the jury with a spoliation instruction because USI destroyed certain client proposals after the Court had ordered production of such documents.

[5] This amount represented the profits that USI and Haughey earned as a result of the infringement. Under the Copyright Act, 17 U.S.C. § 504(b), Graham bore the burden of establishing the defendants' gross revenue from infringement; Graham presented evidence that USI's gross commissions from clients who received an infringing proposal were approximately $32 million and that Haughey's gross commissions were approximately

presented the jury with several interrogatories, including, as relevant here, whether Graham should have discovered that USI was infringing its copyrights prior to February 9, 2002. Because the jury answered in the negative, Graham's claims were not time-barred under the discovery rule.

Following the jury verdict, USI moved for a new trial on the statute of limitations issue, and the District Court granted the motion. According to the Court, the jury's answer to the statute of limitations interrogatory "was against the great weight of the evidence" because the District Court concluded that Graham knew or should have known of certain storm warnings that Haughey would infringe as early as the fall of 1991.[6] *William A. Graham Co. v. Haughey*,

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$12 million. The defendants then bore the burden of proving that certain expenses should be subtracted from the gross revenue figure and to apportion the revenues between their infringing and non-infringing conduct. *Id.* Here, the evidence showed that twenty-five percent of the gross revenue was paid to producers as a salary expense, leaving a total net commission for the defendants of approximately $27 million. The jury's ultimate award was approximately seventy percent of that net commission, implying that the jury concluded that thirty percent of the net commission was attributable to factors other than the infringement.

[6] In reaching this conclusion, the District Court considered evidence regarding Haughey's obligations to Graham under his employment and termination contracts even though the Court excluded those contracts from the jury because it had held that those contracts were superseded by the November

No. 05-612, 2006 U.S. Dist. LEXIS 84736, 2006 WL 3386672, at *15 (E.D. Pa. Nov. 21, 2006). Specifically, the Court concluded that Graham should have known: that Haughey retained a copy of the Standard Works in violation of his employment and termination agreements with Graham as well as the November 1991 agreement that sold FOG certain of Haughey's client accounts; that he was working as a producer for another insurance brokerage firm; and that, given these facts, "it was quite possible, if not likely, that Haughey and FOG would copy [the Standard Works] into client proposals, for that was the only reason for Haughey and FOG to retain [them]." 2006 U.S. Dist. LEXIS 84736, at *14. Thus, the District Court concluded that "Graham had information upon Haughey's departure [in the fall of 1991] that would cause a person, in the exercise of reasonable diligence, to inquire of Haughey and FOG about the possession, use and copying of the [Standard Works]." *Id.* Therefore, the District Court ordered a new trial as to the application of the Copyright Act's statute of limitations and the calculation of Graham's damages.

Because the District Court granted USI's motion for a new trial on the statute of limitations issue, it did not reach USI's motion for a new trial on the grounds that the jury's apportionment of USI's profits (i.e., whether the profits were attributable to infringement or some other non-infringing cause) was

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1991 agreement between Graham, FOG and Haughey.

against the weight of the evidence and/or that the verdict was excessive.

USI also moved for judgment as a matter of law on the ground that Graham failed to prove a legally sufficient causal connection between any copyright infringement and USI's profits. The District Court denied that motion, holding that Graham met its burden on this issue because Graham sought to recover USI's profits only as to USI's clients who received infringing proposals, demonstrated that the written proposals were an important part of USI's sales process, and demonstrated that USI pervasively used language from the Standard Works.

Following subsequent cross-motions for summary judgment on the statute of limitations issue, the District Court held that as a matter of law Graham could not recover on any acts of infringement that occurred prior to February 9, 2002. *William A. Graham Co. v. Haughey*, 484 F. Supp. 2d 324, 336-37 (E.D. Pa. 2007). The Court concluded that sufficient storm warnings existed to put Graham on notice of Haughey's (and thus USI's) infringement in the fall of 1991, i.e., shortly after Haughey left Graham. The Court noted that Graham was or should have been aware: that Haughey retained possession of a copy of the Standard Works when he left Graham; that the only value of the Standard Works to Haughey was to copy them into client proposals; that Haughey went to work for a competing insurance broker; and that Haughey was "not a person of his word" because he engaged in improper competitive behavior by violating the non-compete clause of his employment and termination contracts. *Id.* at 336.

The District Court rejected Graham's argument that "the circumstances this court has identified" as storm warnings could not have put Graham on notice of the defendants' infringement because those storm warnings were related to Haughey's "departure from Graham in the fall of 1991, before the first evidence of an infringing proposal prepared by Haughey in July, 1992." *Id.* at 334. The Court conceded that "it would be nonsensical for a statute of limitations to begin running before the actual injury had occurred," but concluded that "we see no reason why the clock on Graham's claims should not have started to run at the time when Haughey first began to infringe, since there is no sign that any of the storm warnings had abated by that point." *Id.*

The case proceeded to a second jury trial on the issue of damages for acts of infringement occurring on or after February 8, 2002. The jury again returned a verdict for Graham, this time in the amount of $1.4 million against USI and $268,000 against Haughey. Graham timely appealed on April 2, 2008 and USI timely cross-appealed on April 15, 2008.[7]

II. DISCUSSION

A. Statute of Limitations

The Copyright Act provides that "[n]o civil action

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[7] The District Court had jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1338(a). This court has jurisdiction under 28 U.S.C. § 1291.

shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued." 17 U.S.C. § 507(b). Because Graham filed this action on February 8, 2005, the accrual of Graham's claims must be evaluated as of February 9, 2002. However, in continuing infringement cases such as this, "[e]ach act of infringement is a distinct harm giving rise to an independent claim for relief." *Stone v. Williams*, 970 F.2d 1043, 1049 (2d Cir. 1992) (citing *Mount v. Book-of-the-Month Club, Inc.*, 555 F.2d 1108 (2d Cir. 1977)). Thus, as the District Court correctly held, Graham was not time-barred from recovering for any acts of infringement that occurred on or after February 9, 2002, regardless of whether the injury or discovery rule applies to determine the accrual of claims under the Copyright Act. That is not in dispute. Instead, the parties differ on whether Graham may also recover for any acts of infringement that occurred prior to February 9, 2002.

1. Claim Accrual Rule

The question of whether the discovery rule or the injury rule applies to determine when a civil cause of action accrues under the Copyright Act is a legal one. Under the discovery rule, a "cause of action accrues 'when the plaintiff discovers, or with due diligence should have discovered, the injury that forms the basis for the claim.'" *Disabled in Action of Pennsylvania v. Se. Pennsylvania Transp. Auth.*, 539 F.3d 199, 209 (3d Cir. 2008) (quoting *Romero v. Allstate Corp.*, 404 F.3d 212, 222 (3d Cir. 2005)). Under the injury rule, a cause of action accrues at the time of the injury. In this case, if the injury rule were to apply, Graham would be time barred from

recovery on any acts of infringement that occurred prior to February 9, 2002.

Although we have not previously addressed this issue, eight of our sister courts of appeals have applied the discovery rule to civil actions under the Copyright Act. *See Warren Freedenfeld Assocs., Inc. v. McTigue*, 531 F.3d 38, 44-46 (1st Cir. 2008); *Comcast v. Multi-Vision Elecs., Inc.*, 491 F.3d 938, 944 (8th Cir. 2007); *Roger Miller Music, Inc. v. Sony/ATV Publ'g, LLC*, 477 F.3d 383, 390 (6th Cir. 2007); *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 705-07 (9th Cir. 2004); *Gaiman v. McFarlane*, 360 F.3d 644, 653 (7th Cir. 2004); *Lyons P'ship, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 796 (4th Cir. 2001); *Daboub v. Gibbons*, 42 F.3d 285, 291 (5th Cir. 1995); *Stone v. Williams*, 970 F.2d 1043, 1048 (2d Cir. 1992).

USI contends that these precedents are not persuasive because the question of whether the injury or discovery rule applied was not squarely raised in most of them and, more importantly, they fail to address the Supreme Court's decision in *TRW Inc. v. Andrews*, 534 U.S. 19, 122 S. Ct. 441, 151 L. Ed. 2d 339 (2001).

The *TRW* case did not arise under the Copyright Act but under the Fair Credit Reporting Act ("FCRA"). In reaching the statute of limitations issue, the Ninth Circuit held that, because Congress had not "'expressly legislated otherwise,'" the discovery rule applied to claims under the FCRA. *Id.* at 26 (quoting *Andrews v. TRW Inc.*, 225 F.3d 1063, 1067 (9th Cir. 2000)). The Supreme Court rejected

that approach and held that the discovery rule did not apply to actions under the FCRA because "the text and structure of [the FCRA] evince Congress' intent to preclude judicial implication of a discovery rule." *Id.* at 28. Specifically, the Court reasoned that because the FCRA provided that the "statute of limitations runs from 'the date on which the liability arises,' subject to a single [statutory] exception for cases involving a defendant's willful misrepresentation of material information," the "most natural reading of [the FCRA] is that Congress implicitly excluded a general discovery rule by explicitly including a more limited one." *Id.* (quoting 15 U.S.C. § 1681p).

This court had the occasion to interpret and apply *TRW* when it was faced with the issue of the statute of limitations applicable to the Americans with Disabilities Act and the Rehabilitation Act. *Disabled in Action*, 539 F.3d at 208-09. Because neither act included an express statute of limitations, we applied the two-year state statute of limitations. *Id.* at 208. In reaching the "more difficult question" of when the two year statute begins to run, *id.*, we interpreted *TRW* to require the following inquiry to determine the applicable accrual rule for federal causes of action. First, "[w]here Congress has specified an accrual date by 'explicit command' or 'by implication from the structure and text of the statute,' we defer to its directive." *Id.* at 209 (quoting *TRW*, 534 U.S. at 27-28). Second, "'[i]n the absence of a contrary directive from Congress,' we apply the 'federal discovery rule.'" *Id.* (quoting *Romero*, 404 F.3d at 222).

USI would have us set aside that analysis, applied by this court less than a year ago, in favor of a single district court decision in another circuit which used the injury rule to determine when claims accrue under the Copyright Act. *See Auscape Int'l v. Nat'l Geographic Soc'y*, 409 F. Supp. 2d 235, 247 (S.D.N.Y. 2004). We decline to do so. Even the court in *Auscape* conceded that "the text and structure of the [Copyright Act] lend no guidance" as to "Congress' intent with regard to when an infringement claim accrues." *Id.* at 244. This concession answers in the negative the first question raised in *Disabled in Action*: whether "Congress has specified an accrual date by 'explicit command' or 'by implication from the structure and text of the statute.'" 539 F.3d at 209 (quoting *TRW*, 534 U.S. at 27-28).

Further, the text and structure of the Copyright Act actually favor use of the discovery rule. As noted by Graham, criminal actions under the Copyright Act must be "commenced within 5 years after the cause of action arose." 17 U.S.C. § 507(a) (emphasis added). Just six years prior to the amendment to the Copyright Act that added the civil limitations period now codified at 17 U.S.C. § 507(b), the Supreme Court interpreted language similar to § 507(a)'s criminal limitations period in the Admiralty Act ("cause of action arises") to embody the injury rule. *McMahon v. United States*, 342 U.S. 25-26, 27 (1951); *see also TRW*, 534 U.S. at 32 (noting that petitioner "offer[ed] a strong argument" that use of the word "arise" in a statute of limitations provision signals congressional intent to adopt the injury rule (citing *McMahon*, 342 U.S. 25, 72 S. Ct. 17, 96 L. Ed. 26)).

Significantly, Congress used different language in the civil limitations provision ("after the claim accrued"), which the Supreme Court had previously interpreted as embodying the discovery rule. *See Urie v. Thompson*, 337 U.S. 163, 169-170, 69 S. Ct. 1018, 93 L. Ed. 1282 (1949) (construing "cause of action accrued" in Federal Employers' Liability Act and holding that statute of limitations was not triggered until injured employee should have known of injury). Given the maxim of statutory construction that "when the legislature uses certain language in one part of the statute and different language in another, the court assumes different meanings were intended," *Sosa v. Alvarez-Machain*, 542 U.S. 692, 711 n.9, 124 S. Ct. 2739, 159 L. Ed. 2d 718 (2004) (quotation omitted), Graham persuasively argues that the criminal and civil limitations periods embody different claim accrual rules and that § 507(b) should be interpreted to embody the discovery rule.

USI, once again pointing to *Auscape*, interprets the legislative history of the Copyright Act's statute of limitations provision as evidence of congressional intent to adopt the injury rule for civil claims brought pursuant to the Copyright Act. However, Congress provided no "directive" mandating use of the injury rule in that legislative history. *Disabled in Action*, 539 F.3d at 209.

For example, until the statute of limitations provision now codified at 17 U.S.C. § 507(b) was enacted in 1957, the Copyright Act lacked a statute of limitations period for civil actions and courts borrowed state statutes of limitation for analogous

claims. *See* S. Rep. No. 85-1014 (1957), *as reprinted in* 1957 U.S.C.C.A.N. 1961, 1961-62. USI notes several instances in the legislative history of § 507(b) in which congresspersons and witnesses argued that § 507(b) was necessary to provide a "uniform" or "fixed" limitations period. However, these statements reflected dissatisfaction with the use of state statutes of limitations, which ranged from one to eight years and therefore encouraged forum-shopping. *See id.* at 1962; *see also Copyrights--Statute of Limitations: Hearing on H.R. 781 Before H. Comm. on the Judiciary*, 84th Cong. 9, 35, 40 (1955) (hereafter "Hearing"). None of these statements addressed the separate issue of when a claim would accrue under the new federal three-year statute of limitations.

USI also relies on a statement in the Senate Report that "due to the nature of publication of works of art . . . generally the person injured receives reasonably prompt notice or can easily ascertain any infringement of his rights. The committee agrees that 3 years is an appropriate period for a uniform statute of limitations for civil copyright actions and that it would provide an adequate opportunity for the injured party to commence his action." S. Rep. No. 85-1014 (1957), *as reprinted in* 1957 U.S.C.C.A.N. 1961, 1962. Again, this statement does not speak directly to the accrual of actions, but rather seeks to support the three-year limitations period adopted by Congress. Moreover, the fact that Congress believed that infringement was "generally" a public act does not necessarily imply that, in cases in which infringement was not public, Congress intended to reject application of the discovery rule. Indeed, the

quoted passage speaks of whether the injured party has "reasonably prompt notice" of infringement--an inquiry consistent with the discovery rule.

USI next points to what we view as an unenlightening exchange between Representative Shepard J. Crumpacker and a lobbyist for the motion picture industry during a House committee hearing. Representative Crumpacker was concerned that a movie company could make a movie that infringed on a writer's script, secretly show that movie in a small town, sit on the movie until the statute of limitations passed, and then release the movie generally while claiming that the writer was barred from enforcing his or her rights. Hearing at 47. The lobbyist responded that each performance of the film would constitute a separate act of infringement. *Id.* at 48. This exchange is not illustrative of Congressional intent regarding when copyright claims accrue, but is cited by USI because the lobbyist also stated that "if [an act of infringement] occurred three years ago . . . [, then it] would be barred in three years." *Id.* That single statement by a witness at a congressional hearing, which no congressperson commented on or agreed with, signifies nothing and is hardly a basis to conclude that Congress intended to apply the injury rule.

USI also notes that Congress considered including certain express provisions to permit tolling of the statute of limitations, including where the infringer was guilty of fraudulent concealment, and it argues that the consideration of these exceptions would have been unnecessary had Congress intended to apply the discovery rule to claims under the

Copyright Act. Of course, had Congress included those limited exceptions within § 507(b), the holding in *TRW* might well have inclined us to reject the discovery rule here. But the important fact is that Congress rejected inclusion of any statutory exceptions to the statute of limitations period, and did so because "the Federal district courts, generally, would recognize these equitable defenses anyway." H. Rep. No. 84-2419, at 2 (1956).

Moreover, the legislative history makes clear that Congress intended the Copyright Act's statute of limitations to apply "to the remedy of the person affected thereby, and not to his substantive rights," *id.*, by which Congress meant that "[e]quitable considerations are available to prolong the time for bringing suit," *id.* at 3. Further, Congress feared that inclusion of specific statutory exceptions to the three-year limitations period "might result in unfairness to some persons." S. Rep. No. 85-1014 (1957), *as reprinted in* 1957 U.S.C.C.A.N. 1961, 1963. Thus, this case actually presents the opposite situation as *TRW*: Congress considered, but rejected, inclusion of specific statutory exceptions to the Copyright Act's statute of limitations in order to ensure that the courts could consider any equitable circumstances sufficient to excuse a plaintiff's failure to sue within the three-year limitations period.[8]

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[8] USI correctly notes that the legislative history regarding the rejected statutory exceptions to the Copyright Act's three-year limitations period was directed toward equitable tolling rather than the

Finally, USI argues that use of the discovery rule would be inappropriate as a matter of policy. USI notes that in *TRW* the Supreme Court stated that it has "recognized a prevailing discovery rule . . . in two contexts, latent disease and medical malpractice, 'where the cry for such a rule is loudest.'" *TRW*, 534 U.S. at 27 (quoting *Rotella v. Wood*, 528 U.S. 549, 555, 120 S. Ct. 1075, 145 L. Ed. 2d 1047 (2000)). USI would distinguish copyright infringement, arguing that "there is nothing intrinsically 'hidden' or 'latent' about copyright infringement because it is by its nature a public act that is only very rarely hidden from the copyright owner." USI's Reply Br. at 16. That may be true in some instances but not in all.

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discovery rule, and that these doctrines are distinct. However, as discussed above, the legislative history demonstrates that Congress rejected the inclusion of specific exceptions to the Copyright Act's statute of limitations in order to allow the courts to consider any equitable considerations necessary to ensure that copyright holders' rights were fairly protected. As we have explained, the "discovery rule originated as an equitable doctrine to extend the period during which victims of latent injuries could seek recovery." *Disabled in Action*, 539 F.3d at 216 n.16 (emphasis omitted). As this case demonstrates, there are certain infringements which, like latent injuries, a plaintiff cannot reasonably be expected to discover at the time it occurred. Thus, we believe that Congress' expressed intent to allow the courts to consider equitable circumstances to extend the time for filing an infringement action is consistent with use of the discovery rule.

Technological advances such as personal computing and the internet have "ma[de] it more difficult for rights holders to stridently police and protect their copyrights." John Ramirez, Note, *Discovering Injury? The Confused State of the Statute of Limitations for Federal Copyright Infringement*, 17 Fordham Intell. Prop. Media & Ent. L.J. 1125, 1158 (2007) (concluding that discovery rule is appropriate for copyright actions).

In sum, Congress provided no directive mandating use of the injury rule to govern the accrual of claims under the Copyright Act. We conclude that use of the discovery rule comports with the text, structure, legislative history and underlying policies of the Copyright Act. Thus, consistent with *Disabled in Action* and in agreement with our sister courts of appeals, we hold that the federal discovery rule governs the accrual of civil claims brought under the Copyright Act.

2. Application of the Discovery Rule

The first jury proceeded to calculate damages having been instructed to use the discovery rule in light of the District Court's rejection of USI's arguments in favor of the injury rule. Nonetheless, despite the jury's finding to the contrary, the District Court overturned the jury's determination and ruled that, under the discovery rule, Graham's cause of action for copyright infringement accrued in the fall of 1991 after Haughey left Graham to work at USI's predecessor company. Accordingly, the District Court granted USI's motion for a new trial. After cross-motions for summary judgment, the Court granted

USI judgment as a matter of law as to Graham's infringement claims for acts of infringement that occurred before February 9, 2002. According to the District Court, "storm warnings or suspicious circumstances about possible infringement were compelling long before February 9, 2002, but Graham ignored them." *Graham*, 484 F. Supp. 2d. at 336. Therefore, Graham could recover only for acts of infringement that occurred within the three year period prior to its filing of the instant action (i.e., acts occurring on or after February 9, 2002).

In reviewing the District Court's decision to grant a new trial, we apply an abuse of discretion standard. *Fineman v. Armstrong World Indus.*, 980 F.2d 171, 206 (3d Cir. 1992). Where, as here, a district court grants a motion for a new trial because it determines that the jury verdict was against the weight of the evidence, it is "'the duty of the appellate tribunal to exercise a closer degree of scrutiny and supervision than is the case where a new trial is granted because of some undesirable or pernicious influence obtruding into the trial'" in order to protect the jury's fact-finding role. *Id.* at 211 (quoting *Lind v. Schenley Indus. Inc.*, 278 F.2d 79, 90 (3d Cir. 1960) (en banc)). As to the District Court's grant of summary judgment, our review is plenary. *Northview Motors, Inc. v. Chrysler Motors Corp.*, 227 F.3d 78, 88 (3d Cir. 2000).

Graham challenges both the District Court's ruling that USI was entitled to a new trial on the statute of limitations and its subsequent grant of summary judgment to USI on that issue. That is, Graham argues that the evidence was sufficient to

support the first jury's finding that Graham was not chargeable with knowledge of USI's infringement prior to February 9, 2002. Accordingly, Graham contends that we should reinstate the first jury's verdict in favor of Graham in the amount of $16,561,230 against USI and $2,297,397 against Haughey.

3. Storm Warnings

We reiterate that, under the discovery rule, a cause of action accrues "'when the plaintiff discovers, or with due diligence should have discovered, the injury that forms the basis for the claim.'" *Disabled in Action*, 539 F.3d at 209 (quoting *Romero*, 404 F.3d at 222). Applying that precept here, we ask whether Graham "should have known of the basis for [its] claims [, which] depends on whether [it] had sufficient information of possible wrongdoing to place [it] on inquiry notice or to excite storm warnings of culpable activity." *Benak ex rel. Alliance Premier Growth Fund v. Alliance Capital Mgmt. L.P.*, 435 F.3d 396, 400 (3d Cir. 2006) (quoting *In re NAHC, Inc. Sec. Litig.*, 306 F.3d 1314, 1325 (3d Cir. 2002)) (internal quotation marks omitted). USI and Haughey bear the burden of demonstrating such storm warnings and, if they do so, "the burden shifts to [Graham] to show that [it] exercised reasonable due diligence and yet [was] unable to discover [its] injuries." *Id.* (quoting *Mathews v. Kidder, Peabody & Co., Inc.*, 260 F.3d 239, 252 (3d Cir. 2001)).

Graham first contends that the District Court erred because the storm warnings relied upon by the District Court predated the first act of infringement.

As we have previously explained, "[b]ecause a potential plaintiff cannot discover his injury before it has occurred, the discovery rule only postpones the accrual date of a claim where the plaintiff is unaware of the injury. It does not accelerate the accrual date when the plaintiff becomes aware that he will suffer injury in the future." *Disabled in Action*, 539 F.3d at 214 (quotations, alterations, and internal citation omitted). Thus, "the first step in applying the discovery rule . . . is to establish when the injurious . . . act defined by the statute actually occurred." *Id.* Next, we must "determine whether that injury was immediately discoverable, or whether the accrual date will be postponed until it is reasonable to expect the plaintiff to discover the injury." *Id.*

Although the District Court recognized that the statute of limitations could not have begun to run until the first act of infringement occurred in July 1992, the Court concluded that it saw "no reason why the clock on Graham's claims should not have started to run at the time when Haughey first began to infringe, since there is no sign that any of the storm warnings had abated by that point. Graham is incorrect in its contention that storm warnings must warn of an actual injury that has already taken place. . . . A copyright owner has the duty to investigate indications that infringement is in the offing, even if, in the course of the investigation, it learns that infringement has not yet occurred." *Graham*, 484 F. Supp. 2d at 334 (citing *Benak*, 435 F.3d at 400-01; *Mathews*, 260 F.3d at 251-52).

We do not agree that the discovery rule operates in the manner suggested by the District Court.

Significantly, neither of our precedents relied upon by the District Court for the proposition that a copyright owner has a duty to investigate infringement "in the offing" supports such a rule. In both cases, which dealt with a securities action and RICO action, not copyright infringement, we held that the plaintiffs' claims were untimely under the discovery rule because storm warnings of the alleged wrongs put the plaintiffs on inquiry notice before the relevant date. In fact, the storm warnings arose after the alleged wrongs. *Benak*, 435 F.3d at 398-99, 403; *Mathews*, 260 F.3d at 244, 253-54. Thus, *Benak* and *Mathews* do not stand for the proposition that prospective plaintiffs have a duty to inquire into future wrongdoing. Rather, they dealt with the time at which inquiry notice arose for past wrongs.

Indeed, we have rejected the proposition that the discovery rule places a duty on prospective plaintiffs to inquire into possible future wrongful conduct. For example, in *CGB Occupational Therapy, Inc. v. RHA Health Servs. Inc.*, 357 F.3d 375, 384 (3d Cir. 2004), we held that several claims for tortious interference of contract did not accrue "until, at least, the plaintiff suffer[ed] injury . . . as a result of the defendant's conduct." We rejected the defendant's argument that "mere notice of termination [of the plaintiff's contracts] triggered the claim" because the plaintiff did not suffer a legally cognizable injury until the contracts were actually terminated. *Id.* We stated: "Sunrise [the defendant] attempts to take that unremarkable proposition--that the statute of limitations should be postponed where the victim is unaware of the injury--and reverse it, so as to mandate that the statute of limitations accelerates

when the victim becomes aware that he will suffer injury in the future. That is logically fallacious." *Id.* Further, we analogized CGB to a case in which one person tells another "that, in three months, he intends to trespass. The tort of trespass has not occurred until the victim's property is entered by the tortfeasor. That the victim was informed in advance of the inevitable does not alter the accrual of his damages action for trespass." *Id.* at 384 n.9. USI's argument is no different than the one we rejected in CGB.

The District Court also saw storm warnings in Haughey's departure from Graham, even though that departure was ten months before Haughey began to infringe. That departure in itself cannot be considered a storm warning because a copyright owner does not have a duty to ferret out potential acts of infringement before they occur. *Cf. MacLean Assoc., Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769, 780 (3d Cir. 1991) (rejecting argument that a copyright infringement claim was barred by laches because "the district court's laches rationale would have put [plaintiff] under a never ending obligation to discover whether anyone to whom he ever supplied his software would copy it," an obligation that the "Copyright Act does not recognize"). The District Court feared that, if a copyright owner did not have a duty to investigate infringement in the offing, then "Haughey could have told Graham on day one that he was anticipating infringing on day two, and because he was not infringing on day one, the statute of limitations would have been tolled for years without the need for any further action on the part of Graham." *Graham*,

484 F. Supp. 2d at 334. That hypothetical is simply not our case.

We have previously recognized that the aggregate "'mix of information' may constitute a storm warning." *Mathews*, 260 F.3d at 252. Before determining whether this is such a case, we must first address each of the District Court's purported storm warnings separately. High on the District Court's list of reasons for its conclusion that there were ample storm warnings was its focus on Haughey's retention of a copy of the Standard Works when he left Graham in September 1991. However, as the District Court recognized, possession of a copy of a work alone does not constitute copyright infringement or a storm warning thereof. *Graham*, 484 F. Supp. 2d at 331; *see also* 17 U.S.C. § 106 (enumerating exclusive rights of copyright owner). Nonetheless, the District Court concluded that a storm warning existed here because Graham was on notice that the "only real use Haughey would have for the Works was to copy them in violation of Graham's copyright." 484 F. Supp. 2d at 336. That was a jury argument and the record before the first jury did not compel that inference.

Although the jury heard evidence that the Works were valuable because they could be easily copied to provide consistent and accurate explanations of coverage, the jury also heard evidence that producers at both Graham and USI used the Works as reference materials (without directly copying any text) because they included instructions and checklists for producers to use when creating proposals for clients.

The mere fact that a copyright owner has notice that another person also possessed its copyrighted material and may find it useful to copy should not and does not by itself constitute a storm warning of possible infringement. *Cf. Warren Freedenfeld Assocs.*, 531 F.3d at 45 ("There is no presumption that failed business relationships inevitably will give rise either to tortious conduct or disregard of proprietary rights. That a relationship between an architect and a client has become frayed and the client has decided to forge ahead with the project by engaging some other architect does not, in and of itself, serve as a harbinger of an intention to violate the original architect's copyright protection.").

The District Court (in its summary judgment decision) also concluded that Graham had a storm warning of Haughey's (yet-to-occur) infringement based upon Haughey's improper solicitation of Graham's clients, in violation of his employment and termination agreements. However, improper solicitation of business, if it in fact occurred, is a far cry from copyright infringement. In *In re Merck & Co., Inc. Secs., Derivative & "ERISA" Litig.*, 543 F.3d 150 (3d Cir. 2008), we dealt with application of the discovery rule to allegations of securities fraud. We held that "simply stating that a smattering of evidence hinted at the possibility of some type of fraud does not answer the question whether there was 'sufficient information of possible wrongdoing . . . to excite storm warnings of culpable activity' under the securities laws." *Id.* at 164 (quoting *Benak*, 435 F.3d at 400) (emphasis omitted) (alteration in original). Thus, we concluded that the FDA's public allegations of misrepresentations by Merck in its

consumer advertisements were not a storm warning of the securities fraud alleged. *Id.* at 169-72.

Similarly, even if Graham knew that Haughey had improperly solicited certain of Graham's clients, that wrongdoing did not put Graham on notice of Haughey's copyright infringement. The District Court stated that this conduct was a storm warning of infringement because a "person who had breached an agreement with Graham in this regard is likely to infringe the copyright on its Works." *Graham*, 484 F. Supp. 2d at 336. However, inquiry notice demands more than evidence that a person is a bad actor in some general sense before a court can conclude that a storm warning exists as to a specific cause of action.

Moreover, after Graham discovered Haughey's alleged improper solicitation of clients in October 1991, it got Haughey to agree to stop and, significantly, in November 1991, just a month later, sold Haughey and FOG six of Haughey's old client accounts. Thus, by the time of the first act of infringement in July 1992, Haughey's alleged solicitation of clients was an old problem that the parties had resolved, not a storm warning of Haughey's infringement.

Indeed, Graham's course of conduct at the time of Haughey's separation from Graham demonstrates that Graham diligently sought to protect its rights in the Standard Works. In his employment and termination agreements, as well as in the November 1991 agreement selling certain client accounts to FOG, Haughey repeatedly agreed to respect Graham's rights to its intellectual property, including

specifically the Standard Works. The District Court downplayed the significance of Graham's copyright notices, stating: "Graham obviously did not deem the copyrights on the Works in and of themselves to be a sufficient deterrent to infringement. Otherwise, it would not have needed to negotiate a reaffirmation of Haughey's obligation to turn over the binders [containing the Works] upon his departure . . . ." *Graham*, 484 F. Supp. 2d at 333. That is, the District Court seemed to suggest that the fact that Graham sought to buttress its statutory rights under the Copyright Act with contractual obligations implied that Graham was on notice of Haughey's (yet-to-occur) infringement. The jury was entitled to make the opposite inference, i.e., that Graham was diligently protecting its rights.

The evidence before the jury was sufficient to support its conclusion that Graham was not on notice of Haughey's (and USI's) infringement prior to February 9, 2002. There is no evidence to suggest that Graham had actual knowledge of any infringement until 2004. Even if Graham was or should have been aware that Haughey possessed a copy of the Standard Works when he left Graham, the jury heard testimony that Haughey was aware that the Standard Works were confidential information and that Graham had copyrighted them. The jury also heard evidence that Haughey promised (in the November 1991 agreement) to hold Graham's proprietary information, including specifically the Standard Works, "in trust . . . [and] confidence," app. at 2084, and agreed not to "use, divulge, or otherwise disclose" such information, *id.* Finally, the jury knew that after Haughey and USI infringed the

copyrighted material in the Standard Works in a number of client proposals, these proposals were kept confidential by USI.

To summarize, USI was not entitled to judgment as a matter of law on the statute of limitations issue (and therefore the District Court erred in granting USI summary judgment) because the evidence before the first jury was clearly sufficient to support its finding that Graham was not on inquiry notice of Haughey's and USI's infringement before February 9, 2002 (and therefore the District Court abused its discretion in granting USI's motion for a new trial). Our conclusion should lead us to reinstate the first jury's verdict, but, relying on its ruling with respect to the statute of limitations issue, the District Court declined to reach USI's alternative arguments for a new trial. First, USI preserved its argument that the jury's apportionment of the defendants' profits between those that were attributable to infringement (and thus recoverable by Graham) and those that were attributable to other factors (and thus not properly part of the damages calculation) was against the weight of the evidence. Second, USI argued that the verdict was excessive. We will therefore remand the case to the District Court to allow it to consider these issues in the first instance.

B. Causation

We turn to USI's cross-appeal. USI contends that Graham cannot recover on any of its infringement claims because it failed to prove a legally sufficient causal connection between the copyright infringement at issue and the profits of USI and

Haughey that the jury awarded to Graham as compensation for that infringement. The District Court rejected that argument in USI's post-trial motion for judgment as a matter of law.[9]

As relevant here, the Copyright Act provides that the "copyright owner is entitled to recover . . . any profits of the infringer that are attributable to the infringement . . . . In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." 17 U.S.C. § 504(b). Graham's theory of recovery was that it was entitled to USI's and Haughey's commissions as "indirect profits" of infringement (i.e., profits earned not by selling an infringing product, but rather earned from the infringer's operations that were enhanced by the infringement). As explained by the Ninth Circuit, "§ 504(b) creates a two-step framework for recovery of indirect profits: 1) the copyright claimant must first show a causal nexus between the infringement and the [infringer's] gross revenue; and 2) once the casual nexus is shown, the infringer bears the burden of apportioning the profits that were not the result of infringement." *Polar Bear Prods.*, 384 F.3d at 711.

USI contends that Graham failed to satisfy its

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[9] We exercise plenary review of that denial. *Lightning Lube, Inc. v. Witco Corp.*, 4 F.3d 1153, 1166 (3d Cir. 1993).

burden because Graham lacked any evidence connecting "the infringement--that is to say, the use of Graham's copyrighted language--and the decision of the client to purchase insurance through USI." USI's Br. at 66. However, Graham's expert identified client proposals issued by USI that included infringing language and then calculated the revenues obtained by USI from those clients after the client had received an infringing proposal. The jury also heard testimony from USI personnel that the written proposals (including, presumably, those with infringing language) were an important part of the sales process--in fact, Haughey even testified that some clients were convinced to purchase insurance through USI on the basis of the proposals--and that it was USI's practice to review the proposal's contents "page by page" with the client. Moreover, Graham introduced evidence that the Standard Works were valuable in part because they could be easily copied to provide consistent and accurate explanations of coverage comprehensible to lay people. Graham also introduced evidence that FOG had nothing like the Standard Works when Haughey first arrived; that FOG and USI made electronic and paper copies of the Standard Works available to their employees; and that FOG and USI encouraged their producers to use the Standard Works. Finally, the District Court instructed the jury that it could draw an inference against USI based on USI's destruction of evidence relevant to infringement (certain client proposals).

We agree with the District Court that a reasonable jury could conclude from this evidence that Graham met its initial burden to demonstrate that the infringement contributed to USI's profits.

The opinion of the Court of Appeals for the Eighth Circuit in *Andreas v. Volkswagen of America, Inc.*, 336 F.3d 789 (8th Cir. 2003), is instructive. There, Volkswagen (d/b/a Audi) infringed Andreas' copyrighted poem by including text from the poem in one commercial that was part of a three-commercial ad campaign for the Audi TT automobile. *Id.* at 791-92. After the jury awarded Andreas a portion of Audi's profits for the Audi TT during the period of infringement, the district court granted Audi judgment as a matter of law. *Id.* The Court of Appeals reversed, holding that Andreas only bore the burden of proving "whether Audi profited from the infringing commercial at all." *Id.* at 796. It concluded that Audi did so in light of evidence that the "infringement was the centerpiece of [the] commercial;" that "Audi enthusiastically presented the commercial to its dealers;" that sales of the Audi TT exceeded projections; that the ad campaign received high ratings; and that Audi paid its advertising consultant a bonus based on the success of the campaign. *Id.* at 796-97.

Similarly, Graham appropriately sought to recover only USI's and Haughey's commissions from their clients that were provided with infringing proposals. Graham also showed that the written proposals were important to USI's clients, that the infringed language from the Standard Works contributed to the success of those proposals, and that USI urged its employees to use the Standard Works.

In *Andreas*, the Eighth Circuit also rejected Audi's argument that Andreas was required to

provide testimony that purchasing decisions were influenced by the commercial, reasoning that "[o]nce a nexus was shown . . . [and] Andreas establish[ed] Audi's gross revenue . . . [,] Audi then bore the burden of establishing that its profit was attributable to factors other than the infringing words: the other two commercials[,] . . . customer loyalty, brand recognition, etc." 336 F.3d at 797. Similarly, as noted by Graham, USI's contention that Graham was required to show that the infringement was "an essential and integral key" to its clients' decisions to purchase insurance through USI misconstrues the parties' burdens of proof under 17 U.S.C. § 504(b). USI's Br. at 68. This argument relates to the apportionment of USI's profits between USI's infringing and non-infringing conduct, a matter over which USI bore the burden of proof.[10] In order to satisfy its initial burden of proof, Graham was required to prove only that the profits it sought to recover were "reasonably related to the infringement," *On Davis v. Gap, Inc.*, 246 F.3d 152, 160 (2d Cir. 2001), and Graham did so here.

In sum, the District Court correctly rejected USI's motion for judgment as a matter of law on the issue of causation after finding that Graham had satisfied its burden of proof under 17 U.S.C. § 504(b). On

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[10] Indeed, at trial, USI presented evidence on the issue of apportionment and devoted a significant portion of its closing argument to the issue, and the jury ultimately reduced Graham's requested profits by thirty percent to account for the contribution of USI's non-infringing conduct to its revenues.

remand, USI may renew its related contentions that the jury's apportionment of its profits was against the weight of the evidence and that the verdict was excessive.

III. CONCLUSION

We will affirm the District Court's rejection of USI's motion for judgment as a matter of law with respect to the causation issue. Although we agree with the District Court's ruling that the discovery rule applies to copyright infringement claims, we will reverse the District Court's orders granting USI's motions for a new trial and summary judgment with respect to accrual of the statute of limitations issue. We remand only so that the District Court may decide defendants' arguments concerning apportionment and excessiveness of the verdict. If the District Court rejects these arguments, it shall reinstate the verdict of the first jury and undertake any necessary further proceedings consistent with this opinion.

UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

NO. 05-CV-00612

WILLIAM A. GRAHAM COMPANY, PLAINTIFF

V.

THOMAS P. HAUGHEY, ET AL., DEFENDANTS

Dated: March 29, 2007

MEMORANDUM

Bartle, C.J.

Plaintiff William A. Graham Company ("Graham"), an insurance brokerage firm, filed this action against defendants Thomas P. Haughey ("Haughey"), a former employee of Graham, and USI Midatlantic, Inc. ("USI"), an insurance brokerage firm and Haughey's current employer. Plaintiff alleged that defendants infringed Graham's copyrights in its "Standard Survey and Analysis" and "Standard Proposal." After trial, the jury returned a verdict in Graham's favor and awarded damages in the amount of $16,561,230 against defendant USI and $2,297,397 against defendant Haughey. The damages represented defendants' profits from acts of infringement going back to 1992. 17 U.S.C. §§ 501, 504. On November 21, 2006, upon consideration of the defendants' post-trial motion, we granted a new trial on the question of whether plaintiff should have reasonably discovered its injuries prior to February 9,

2002, that is, prior to the expiration of the three-year statute of limitations provided by the Copyright Act, 17 U.S.C. § 507(b). Now pending before the court are: (1) plaintiff's motion for reconsideration of the court's November 21, 2006 Order; (2) defendants' motion for partial summary judgment with respect to damages prior to February 9, 2002; (3) plaintiff's motion for summary judgment for the full amount of damages awarded by the jury; and (4) plaintiff's motion to vacate paragraph two of the court's November 21, 2006 Order, which granted defendants' motion for a new trial on the issue of statute of limitations, pursuant to Rule 60 of the Federal Rules of Civil Procedure.

I.

As an initial matter, there is no dispute that it is proper for this court to consider a motion for summary judgment after it has granted a new trial. *See Limbach v. Sheet Metal Workers Int'l Ass'n*, 949 F.2d 1241, 1256 n.12 (3d Cir. 1991). Under Rule 56 of the Federal Rules of Civil Procedure, a moving party is entitled to summary judgment only where there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986); *see* Fed. R. Civ. P. 56(c). A dispute is genuine if the evidence is such that a reasonable jury could return a verdict for the non-moving party. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 254, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). "Where the record taken as a whole could not lead a rational trier of fact to find for the non-moving party, there is no genuine issue for trial."

Matsushita, 475 U.S. at 587, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (internal quotation and citation omitted). Although it is the province of the jury to determine issues of disputed fact, a court on summary judgment need not "turn a blind eye to the weight of the evidence; the 'opponent must do more than simply show that there is some metaphysical doubt as to the material facts.'" *Big Apple BMW, Inc. v. BMW of N. Am., Inc.*, 974 F.2d 1358, 1363 (3d Cir. 1992) (quoting *Matsushita*, 475 U.S. at 586).

In its opposition to defendants' motion for partial summary judgment, Graham submitted new declarations from two witnesses who were previously deposed and who testified at trial. To the extent that these new declarations are inconsistent with the witnesses' prior testimony, we will disregard them under the "sham affidavit doctrine." As articulated by the Court of Appeals, this doctrine directs district courts to disregard a subsequent affidavit from a witness who has given prior testimony when "the affidavit comes in later to explain away or patch up [earlier testimony] in an attempt to create a genuine issue of material fact." *In re CitX Corp., Inc.*, 448 F.3d 672, 679 (3d Cir. 2006); *Hackman v. Valley Fair*, 932 F.2d 239, 241 (3d Cir. 1991).

II.

Graham, as a commercial insurance brokerage firm, provides property and casualty insurance services to businesses. When soliciting a prospective client, Graham typically prepares a risk management study, called a "survey and analysis," which evaluates the prospective client's insurance needs.

Graham's producers incorporate language from its Standard Survey and Analysis and its Standard Proposal (collectively the "Works") into the individualized survey and analysis and proposal prepared for each client. The allegations in this case stem from the use and copying of the Works by the defendants in connection with their business activities.

The Works consist of hundreds of pages contained in two binders and were derived from what Graham called the Standard Paragraphs which it developed in the 1980's. Graham employees used the language in the Standard Paragraphs to prepare surveys and analyses and proposals for clients and prospective clients to explain in lay language various insurance coverages and suggested coverages. The proposals created from the Standard Paragraphs and delivered to clients did not contain any copyright notice, and Graham did not impose any contractual limitation on the client's use of the proposal. In 1990, some of the language in the Standard Paragraphs was combined with new material to create the Works. It was at this time that Graham first began to affix copyright notices on individualized proposals prepared for and distributed to clients. On February 21, 1995, Graham filed two applications with the United States Copyright Office to register copyrights in certain portions of the Works. The Copyright Office issued two certificates of registration, effective February 21, 1995, for those portions of the Works in which copyright was claimed. In 2000, the Copyright Office issued two supplementary certificates of registration for the Works, effective October 25, 2000, based upon supplementary applications Graham had submitted.

From January, 1985 through September, 1991, defendant Thomas Haughey worked for Graham as a producer. During Haughey's employment with Graham he was one of eight employees who were given copies of the Works, and he used them extensively in his submissions to his clients and prospective clients. On September 11, 1991, Graham and Haughey entered into an agreement to terminate Haughey's employment. It included a provision that Haughey "reaffirms his continuing obligation, to abide by the terms, conditions and restrictions of the provisions of Paragraphs 3, 4 and 5 of the [1989 Employment Agreement]." These paragraphs prohibited Haughey from disclosing company information and retaining company documents after termination.

Upon leaving Graham, Haughey went to work as producer at another insurance brokerage firm, Flanigan, O'Hara, Gentry & Associates ("FOG"). Haughey took with him to FOG a set of the binders containing the Works. At FOG, Haughey copied language from the Works into written proposals for new clients. At some point in 1994 or 1995, FOG hired a temporary employee for the specific task of typing the language of the Works into its computer system. Paper copies were also distributed to employees at FOG. In March, 1995, USI Holdings acquired and merged with two other entities to create USI Midatlantic, Inc., the corporate defendant in this case. The Works were available to and used by USI employees. Defendants admit to incorporating portions of the Works into over 950 written proposals prepared for 315 clients. Graham learned of the copying in November, 2004, when it received a

proposal from a client of the defendants while attempting to solicit that client's business. Graham filed this action for copyright infringement on February 8, 2005.

After a five day trial and after denying the defendant's motion for judgment as a matter of law, the court submitted special interrogatories to the jury. The jury first found that defendants had infringed Graham's copyright in the Works. We denied defendants' post-trial motion challenging this finding and it is not the subject of the present motion. The jury was then asked: "Prior to February 9, 2002, should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" The jury responded "no."

III.

We will begin by considering defendants' motion for summary judgment with respect to Graham's claim for damages prior to February 9, 2002.

The purpose of a statute of limitations is to "put defendants on notice of adverse claims and to prevent plaintiffs from sleeping on their rights." *Crown, Cork & Seal Co., Inc. v. Parker*, 462 U.S. 345, 352, 103 S. Ct. 2392, 76 L. Ed. 2d 628 (1983). The copyright statute provides a specific statute of limitations: "[n]o civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued." 17 U.S.C. § 507(b). In the case of continuing copyright infringement, as here, "an action may be brought for all acts that accrued within the three years preceding the filing of the

suit." *Roley v. New World Pictures, Ltd.*, 19 F.3d 479, 481 (9th Cir. 1994). Graham, as noted above, filed this action on February 8, 2005. Consequently, under ordinary circumstances, the statute of limitations would bar any of Graham's copyright claims that accrued prior to February 9, 2002.

Courts have recognized that fairness dictates that the limitations period be tolled under certain circumstances. *See Bohus v. Beloff*, 950 F.2d 919 (3d Cir. 1991). Prior to trial in this case, our predecessor, the late Judge Clarence C. Newcomer, held that the discovery rule applies to claims for copyright infringement, including this one. Aug. 15, 2005 Order of Judge Newcomer (Docket Entry 31); Mem. Op. of Nov. 21, 2006 at 25-26. Under that rule, the statute of limitations on a copyright claim is tolled until "the moment [the copyright owner] has knowledge of the violation or is chargeable with such knowledge." *Id.*; *Polar Bear Productions, Inc. v. Timex Corp.*, 384 F.3d 700, 706-07 (9th Cir. 2004). The determination of when knowledge will be imputed to a party under the terms of the discovery rule is presumptively a question for the jury but may be decided as a matter of law when the party invoking the rule does not present sufficient proof to send the issue to a jury. *See Smith-Haynie v. District of Columbia*, 332 U.S. App. D.C. 182, 155 F.3d 575, 579 (D.C. Cir. 1998); *Bohus*, 950 F.2d at 925.

Proving the applicability of the statute of limitations usually falls on the defendant as an affirmative defense. *See* Fed. R. Civ. P. 8(c). When, however, as here, a plaintiff seeks the benefit of the discovery rule, the burden shifts to it to prove that in

the exercise of reasonable diligence it should not have discovered the infringement before the statutory bar, in this case, February 9, 2002. *See Gould v. U.S. Dep't of Health and Human Services*, 905 F.2d 738, 745-46 (4th Cir. 1990). Graham introduced evidence that defendants began their acts of infringement as far back as 1992. It is well settled in continuing infringement cases such as this that "[e]ach act of infringement is a distinct harm giving rise to an independent claim for relief." *Stone v. Williams*, 970 F.2d 1043, 1050 (2d Cir. 1992); *Roley* at 481. Thus, even if Graham cannot prove that it was excused from discovering the pre-February 9, 2002 acts of infringements prior to that date, damages are still available in the form of defendants' profits arising from acts of infringement occurring on or after February 9, 2002.

There is no evidence in the record that Graham actually knew of the defendants' infringement before 2004 when a Graham employee saw a copy of one of USI's infringing proposals. That, of course, is not sufficient to satisfy Graham's burden with respect to the discovery rule. We must decide whether Graham was chargeable with such knowledge more than three years before initiating suit. Graham must prove that in the exercise of reasonable diligence it should not have known before February 9, 2002 about any of defendants' previous acts of infringement. *Stone v. Williams*, 970 F.2d 1043, 1048 (2d Cir. 1992). When a plaintiff is aware of facts that furnish it with a potential claim, a duty of inquiry arises and "[p]laintiff is charged with whatever knowledge an inquiry would have revealed." *Id.* at 1049. Once a plaintiff has knowledge or imputed knowledge of a

potential claim, the statute of limitations begins to run. *Cetel v. Kirwan Fin. Group, Inc.*, 460 F.3d 494, 508 (3d Cir. 2006).

Although our Court of Appeals, so far as we can ascertain, has never addressed the question of inquiry notice in a copyright action, it has frequently confronted that issue in securities fraud and civil RICO cases. The discovery rule is a generally applicable doctrine which maintains the same basic formulation in each circumstance in which it applies. *See Rotella v. Wood*, 528 U.S. 549, 555-56, 120 S. Ct. 1075, 145 L. Ed. 2d 1047 (2000). Thus, we see no reason why the Court of Appeals' analysis in securities fraud and civil RICO cases should not apply with equal force here as a way to specify the plaintiff's duty of reasonable diligence.

In a recent RICO action, the court employed a two-prong test to determine whether a plaintiff will be deemed to have notice of its claims. *Mathews v. Kidder, Peabody & Co.*, 260 F.3d 239, 252 (3d Cir. 2006), *see also Benak v. Alliance Capital Mgmt. L.P.*, 435 F.3d 396, 400-01 (3d Cir. 2006) (securities fraud). First, the defendant must come forward with evidence of the existence of "storm warnings," or "suspicious circumstances," that would alert a reasonable person that an investigation should be made. *Id.* After the defendant has done so, the burden of proof is then upon the plaintiff to establish that it was reasonably diligent in making an adequate investigation but was still unable to discover its injuries. *Id.* When a plaintiff has not been reasonably diligent in investigating "storm warnings" or "suspicious circumstances," it may not

invoke the discovery rule and instead will be deemed to have notice of its claims. *Id.*; *Benak*, 435 F.3d at 400-01. Thus, in a copyright case when the discovery rule is not applicable, the plaintiff's damages will be limited to those available for the three year period prior to the filing of the lawsuit.

In our November 21, 2006 Memorandum in support of the Order granting a new trial on damages, we described the multitude of storm warnings that existed in this case. Graham disputes both the existence and the importance of many of these circumstances. We will reconsider each of the items defendants identify as storm warnings in light of Graham's arguments to the contrary.

First, Graham knew or should have known that Haughey's copy of the binders containing the copyrighted Works remained in his possession after he was terminated in the fall of 1991. It is undisputed that the two binders were quite voluminous with each containing hundreds of pages. At the time Haughey left Graham, there were only eight sets of the binders containing the Works. Each of Graham's eight producers at the time had been issued a copy, and no other Graham employee was in possession of one. These eight copies were very tightly controlled by Margaret Jones ("Jones"), a vice president and the manager of the technical development department at Graham. She testified at trial:

> . . . I prepared [the binders containing the Works], with my assistant. Back then we didn't have

> word processing like we do today. So, we were the ones that prepared - we would go collect - well, first time, we prepared the green binders that we gave to all of our producers, and we're the ones that printed out all the pages. We're the ones that put the copyright notice on the white glossy sheet and we took them around and we gave them to each one of our producers. And then, whenever we would make changes to the standard proposal, we would go collect all eight copies, bring them to our area, we would make all the changes and we would distribute them. We controlled the entire process.

Trial Tr. vol. 1, 156:9 - 156:22, June 19, 2006 (as corrected by Feb. 13, 2007 Order, Docket Entry 185).

Additionally, Graham emphasized during the trial how important the binders were to it. Graham's president, William Graham, testified that the Works were "absolutely essential" to his company's business and that they were "probably the most important way that we can establish creditability [sic] with a perspective [sic] client." Trial Tr. vol. 2, 55:5 - 55:20, June 20, 2006. He explained that because the insurance industry is "so confusing," it is the use of the simplified language in the Works that allows Graham to "get in front of hundreds of businesses," that is, establish its competitive edge, and to "tell a customer, we know what we are doing." *Id.* at 55:25 - 57:12.

Further, it is undisputed that Graham expected Haughey to return the copyrighted binders when he left Graham's employ in 1991. At that time, Graham and Haughey negotiated a contractual agreement, dated September 11, 1991, whereby Haughey specifically reaffirmed his obligation under his 1989 employment contract to return all Graham Company books, documents and other property upon his departure. That employment contract stated:

> All books, cards, records, accounts, files, notes, memoranda, lists and other papers or the information contained therein or obtained therefrom, connected with or arising from or created in the activities and/or affairs of Employer, in the charge or possession of Employee, is the property of Employer and . . . [a]t the termination of this Agreement . . . shall be turned over to and delivered to Employer without hesitancy or delay.

1989 Producer Employment Agreement (emphasis added). Due to the size, significance, and limited number of copies of the Works, Haughey's failure to return his copy would have been obvious, particularly given his reaffirmation of his contractual obligation to return the binders shortly before he left Graham's employ.

Graham now seeks to undermine the suggestion that it knew or should have known that the Works remained in Haughey's possession after his departure for FOG. Graham believes that there is a genuine issue of material fact as to whether Haughey actually retained the binders when he left Graham. Graham

argues that "nothing in the record suggests that whatever set of binders was current as of Haughey's September, 1991 departure had in fact 'disappeared' from Haughey's office." Pl.'s Mem. in Opp. at 12. We disagree. Putting aside the irony that Graham specifically argued to the jury that Haughey had taken the two binders containing the 1991 version of the Works, Graham now ignores Haughey's testimony at trial that he had taken the Works with him and used them:

> Q: The binders you received containing the Standard Proposal and the Standard Survey and Analysis contained a copyright notice on the top of the binder, isn't that true?
>
> A: I honestly don't remember the copyright notice on the binders.
>
> Q: And you left the Graham Company in early September of 1991, correct?
>
> A: That's correct.
>
> Q: You held on to those books at your home?
>
> A: I did maintain them there, yes.
>
> Q: And then when you moved to FOG you brought them with you to the office at FOG?
>
> A: I don't believe I ever took them

into the office. I work from home mostly.

Q: Okay. So you used them at home?

A: Yes.

Q: After you went to Flanagan O'Hara and Gentry?

A: The proposal book.

Trial Tr. vol. 3, 43:24 - 44:17, June 21, 2006. In putting forth the possibility that Haughey did not take the binders with him to FOG, Graham is also unable to explain away the indisputable fact that USI was in possession of the binders, the contents of which were typed into USI's computer system in 1994 or 1995.

Moreover, the binders taken by Haughey could not have been, as Graham now posits, some "earlier" version of the Works given to Haughey in 1986, soon after he began working at Graham. Jones testified both during her deposition and in a post-trial declaration[1] that the Works were not placed in

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[1] Attached as Exhibit 8 to its Opposition to Defendant's Motion for Summary Judgment (Docket 176), Graham submits an artfully worded declaration by Jones. As noted above, to the extent that this declaration is inconsistent with Jones' deposition testimony or her testimony at trial, we will disregard it in determining whether there is a genuine issue of material fact. *In re CitX Corp.*, 448 F.3d at 679 (3d Cir. 2006). Additionally, to the extent that Jones' declaration is not based on personal knowledge, we will disregard it under Rule 56(e) of the Federal Rules of Civil Procedure.

binders and distributed until 1990:

> Q: When you were in the era of the standard paragraphs [until 1990], how were they maintained by individual producers and account managers? In a binder?
>
> A: No. They had individual files.
>
> * * *
>
> Q: Did anybody actually put them in a binder and use them as a binder?
>
> A: (Indicating).
>
> Q: Why not?
>
> A: Because they were in a file and that's the way we gave it to everybody. And the process was as you were preparing your survey by line of coverage you would pull your file and do that coverage and then pull your next file and do that coverage.

Jones Dep. June 24, 2005 at 156:3 - 157:9. *See also* Jones Decl. P 12. Graham's belated effort to raise doubts as to whether Haughey took the binders containing the 1991 version of the Works are to no avail considering the multitude of evidence that it put forth to the contrary. In sum, there can be no doubt based on the evidence that Graham knew or should have known that a copy of the binders remained in Haughey's possession after he was terminated.

Of course, it is not simply Haughey's possession of the physical binders themselves that gave rise to

this copyright infringement action. We agree with Graham that an infringer's mere possession of copyrighted material, without more, is insufficient to amount to a storm warning requiring investigation on the part of the copyright holder. Instead, it is the use or copying of the contents of the binders that is critical. Storm warnings, however, existed for Graham in this respect too.

First, unlike most copyrighted works such as art objects or books, Graham did not create the Works at issue here simply to be gazed upon or read. The very purpose of the Works was to copy portions of them into the surveys and analyses and the proposals submitted to its clients. In its memorandum in opposition to defendant's motion for summary judgment, Graham now speculates that the Works could have also been used as a reference guide or a checklist. Graham belatedly attempts to diminish the importance of the Works by adopting Haughey's testimony that he "had really no use for them" as evidence that Graham could have reasonably assumed Haughey would quickly dispose of the binders. The jury clearly found Haughey's testimony not to be credible when it returned a finding of infringement, a finding Graham does not dispute. As described above, there is no doubt that Graham considered the Works to be vital to its business and expected Haughey to return his copy upon his departure. Graham witnesses also testified that the value of the Works consisted in the ability to copy them easily and so disseminate the information they contained to their clients. William Graham testified at trial that it was important to present the clients with a written proposal because

> [I]nsurance is so confusing ... it is like trying to drink from a fire hose, all the information that [a client has] seen, try to think in terms of remembering all that a month from now, I mean it is impossible. But if you have real short succinct explanations of what was covered and what was explained, [clients] say to me they use it as a referral and they look at it and go over it.

Trial Tr. vol. 2, 56:25 - 57:12, June 20, 2006. Jones also testified that the "added value" the Works provided over the standard paragraphs derived specifically from the efficiency gains in being able to copy the relevant sections from a single document that was "sitting right in front of you" rather than the multiple and disparate files that contained the Standard Paragraphs. Jones Dep. June 24, 2005 at 158:12 - 159:24.

Second, Graham knew that Haughey had taken a position with FOG, a competing insurance brokerage firm, and was not, for example, going into retirement or another field of endeavor. Graham was aware that Haughey's position at FOG would be a producer, the same position he held at Graham, and understood that among Haughey's responsibilities would be the preparation of written client proposals in his efforts to sell insurance. The 1991 Termination Agreement between Graham and Haughey was negotiated and signed to protect Graham if and when Haughey went to work for a competitor, as he did. In addition, on November 25, 1991, Graham, Haughey and FOG entered into a separate agreement ("November, 1991 Agreement") whereby FOG purchased from Graham certain accounts for which Haughey had been

responsible at Graham. As part of that agreement, Graham's files for those six clients were transferred to FOG. The November, 1991 Agreement specifically reflected Graham's concern that Haughey could misuse the Works to secure business:

> All knowledge and information concerning and respecting the activities and/or affairs of Graham and/or its clients (including, without limitation Graham's Survey and Analysis, Proposal, Underwriting Submission, Coverage Checklist, and Claims Loss Formats), which Haughey had acquired during his employment shall be held in trust, in confidence for the sole benefit of Graham, its successor and assigns, and its clients.

November, 1991 Agreement at P 12. This agreement reiterated Haughey's obligation to return all other materials to Graham "without hesitancy or delay" in order to prevent Haughey and FOG from using them in connection with their competing insurance business. As sophisticated insurance professionals, those in management at Graham knew how valuable the binders would be in the hands of a competitor. In a word, the only real benefit of the Works was the ability to copy portions of them into proposals submitted to clients and thus to infringe Graham's copyright.

Graham now attempts to dispute the fact that the two companies were competitors. Graham purports to do so on the ground that Graham had begun to court larger businesses as its primary clientele, while

FOG carried a portfolio of smaller, family-run businesses.[2] Graham's assertion in this regard is meritless. Graham and FOG were both commercial insurance brokerage firms. They both provided property and casualty insurance services to businesses. It is also telling that Graham actually discovered the infringement in this case when it was attempting to solicit the business of a client who had also received a proposal from USI. This can only be characterized as competition. In any event, Graham was aware that, like it, FOG also employed the use of written proposals to its clients. Regardless of the type of clientele Graham started to pursue, it is clear that the information contained in and the format of the Works would be a useful asset for a producer at FOG and that Graham was aware of that fact.

Finally, there was another piece of evidence, not

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[2] Graham also seeks to bolster its contention by proffering a recent declaration of William Graham in which he states that "[At the time Haughey left Graham], I did not consider FOG to be a competitor of The Graham Company." Graham Decl. at P 5. Because this statement is inconsistent with Mr. Graham's deposition testimony, we will disregard it as a sham affidavit in determining whether there is a genuine issue of material fact. *In re CitX Corp.*, 448 F.3d at 679 (3d Cir. 2006). During his deposition, Mr. Graham was asked whether he considered USI, FOG's successor corporation, to be a competitor of The Graham Company, Mr. Graham answered "Yes." He went on to add that "We rarely compete with them, but they would be considered a competitor." Graham Dep. July 18, 2005 at 113:24 - 114:18.

only that Graham considered Haughey and FOG competitors, but that establishes yet another early storm warning that Graham needed to investigate and monitor Haughey's use of the binders containing the Works. On October 4, 1991, Judith Dooling ("Dooling"), Executive Vice President at Graham, sent a letter to Haughey which accused him of breaching his contractual obligations by continuing to contact Graham's clients after his departure. The letter stated that:

> To confirm our conversation yesterday afternoon, effective immediately we expect you to stop calling, visiting, or having any other form of contact with our clients. As I explained to you, this is a violation of your contract.

Letter from Dooling to Haughey (October 4, 1991) (emphasis in original). The letter also reminded Haughey that he must cancel an appointment he had scheduled with one of Graham's clients. The appointment was to take place 23 days after Haughey's departure from Graham. Clearly, in the fall of 1991, Graham was well aware that Haughey was engaging in improper competitive activities and that he had already violated one of his contractual obligations. With this violation, it was surely incumbent upon a sophisticated business such as Graham to investigate the whereabouts of the binders containing Graham's valuable Works and to determine if Haughey was copying those Works into proposals to sell insurance at his new employer.

Graham contends that it was reasonable for it to expect Haughey would abide by the copyright in the Works. Graham argues that Haughey was indisputably aware of Graham's claim to copyright in

the Works and had even acknowledged Graham's rights in its proprietary forms in writing. Even if Graham is correct, however, that copyright owners may assume that the public at large will respect copyright notices, the question here is of Graham's reasonableness with respect to one particular individual, whom it already had cause to distrust and who, in Graham's view, had already breached his non-compete agreement. Graham obviously did not deem the copyrights on the Works in and of themselves to be a sufficient deterrent to infringement. Otherwise, it would not have needed to negotiate a reaffirmation of Haughey's obligation to turn over the binders upon his departure and reiterate that obligation in the November, 1991 agreement. Graham's belief that Haughey had breached his Termination Agreement in other respects in October of 1991 adds to the insurmountable evidence that it was unreasonable for Graham not to have made investigation of Haughey's post-termination behavior and to have insisted that he return the missing binders.

In addition to its above-described objections to the factual bases of these suspicious circumstances, Graham suggests that storm warnings may only occur after the actual injury, that is, the infringement, has already happened and not merely as a indicator of a potential infringement. The concern, according to Graham, is that if the presence of pre-injury storm warnings triggers the statute of limitations clock, the clock would be running on a claim before the injury giving rise to the claim had even occurred. Graham is correct that in the present instance, the circumstances this court has identified

as giving rise to a duty to investigate arose upon his departure from Graham in the fall of 1991, before the first evidence of an infringing proposal prepared by Haughey in July, 1992. Graham is also correct that it would be nonsensical for a statute of limitations to begin running before the actual injury had occurred. However, we see no reason why the clock on Graham's claims should not have started to run at the time when Haughey first began to infringe, since there is no sign that any of the storm warnings had abated by that point.

Graham is incorrect in its contention that storm warnings must warn of an actual injury that has already taken place. The storm warning standard is designed to encourage potential plaintiffs to be reasonably diligent in investigating suspicious circumstances so that they discover their injuries in a timely fashion. Surely, if a copyright owner has warnings or is in possession of suspicious circumstances, *see Matthews*, 260 F.3d at 252, that a person is about to infringe a copyright in the near future, the copyright owner cannot sit on his hands and argue years later that the statute of limitations had not started to run because infringement had not yet occurred when the storm warnings first appeared. Under Graham's argument, Haughey could have told Graham on day one that he was anticipating infringing on day two, and because he was not infringing on day one, the statute of limitations would have been tolled for years without the need for any further action on the part of Graham. This would expand the discovery rule beyond recognition and totally undermine the purpose of the statute of limitations to preclude stale claims and prevent

parties from sleeping on their rights. *Crown*, 462 U.S. at 356. A copyright owner has the duty to investigate indications that infringement is in the offing, even if, in the course of the investigation, it learns that infringement has not yet occurred. *See generally Benak*, 435 F.3d at 400-01; *Matthews*, 260 F.3d at 251-52.

The cases Graham cites in its motion for summary judgment are all inapposite. First, Graham cites *MacLean Assoc., Inc., v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, for the proposition that just because a would-be infringer possesses a copy of a work, it does not follow that the copyright owner should know the infringer will infringe. 952 F.2d 769 (3d Cir. 1991). In *MacLean*, the copyright owner was a former employee of the defendant infringer. After leaving the defendant's employ to start his own company, the owner created a software program designed to help one of his former employer's clients, for whom he was still providing professional services as a consultant. On two occasions in 1986, the owner gave his former employer copies of the software program without any restrictions on their use so that it could do additional work on the client's account. The defendant began infringing the owner's copyright in 1987, the owner had actual notice that his copyright was being infringed in 1989, and he filed suit for copyright infringement approximately one year later. Even though all infringing acts were indisputably within the statute of limitations, the defendant argued that the owner's claim should be barred by laches, and the District Court agreed. The Court of Appeals, however, reversed on the grounds that the circumstances did not warrant application of

laches, an equitable doctrine, particularly since the suit was otherwise within the statute of limitations. *Id.* at 780. It found that an assumption that possession of a work would necessarily lead to infringement would impose on copyright owners "a never ending obligation to discover whether anyone to whom he ever supplied his software would copy it." *Id.* In contrast, Graham had significantly more information and significantly more reasons to suspect infringement than Haughey's mere possession of the binders. In addition, it is significant that the issue in *MacLean* was whether the equitable doctrine of laches could be applied. In that context, it is hardly surprising that the Court of Appeals was hesitant to impose a higher standard on the owner that would deprive him of his statutory right to a minimum limitations period.

Next, Graham cites *Jacobsen v. Deseret Book Co.*, 287 F.3d 936 (10th Cir. 2002), which also concerned laches. In *Jacobson*, the author of a book lent it to another author, who claimed he wanted to use it for "gathering background information" for writing a book on the same subject. *Id.* at 949. The Court of Appeals for the Tenth Circuit held that the District Court's grant of summary judgment was inappropriate because that court had made factual findings as to admittedly "highly disputed" matters. *Id.* Among the disputed issues of fact was the question of whether the copyright owner had any reason to suspect that the defendant was using the owner's book in an inappropriate way. *Id.* at 950. The Court of Appeals noted that the copyright owner was "expected to exercise reasonable diligence in protecting his rights." *Id.* (internal quotations and

citation omitted). The court also recognized that the suit was brought within the three-year statute of limitations and the application of laches would serve to shorten that statutory minimum period. *Id.* at 951. The present matter is clearly distinguishable, first on the ground that the issue before us is the statute of limitations, rather than laches, and second because there are no disputes of material fact as to the warning signs which gave rise to Graham's duty to investigate.

Graham then cites to *Lennon v. Seaman*, 63 F. Supp. 2d 428 (S.D.N.Y. 1999). There, Yoko Ono Lennon sued a former employee, a photographer, under the Copyright Act for removing Lennon family photographs from her house and disseminating them nearly two decades later. Lennon brought suit within three years of the alleged infringement. The defendant photographer tried to characterize Lennon's claim as one seeking to vindicate a property right in the photographs themselves, rather than a copyright infringement claim based on the improper reproduction of the photos. *Id.* at 444. Thus, he argued, "the statute of limitations should begin to run at the time the plaintiff knew that the defendant had the Photographs." *Id.* Unsurprisingly, the Lennon court refused to accept the defendant's characterization and concluded that the date that Lennon knew the defendant possessed the photographs was irrelevant to the accrual of the claim and did not trigger the statute of limitations. Because the action was clearly brought within three years of the infringement, the Lennon court did not have occasion to consider the discovery rule. Graham's reliance on this case for the proposition

that mere possession of a copyrighted work by another party should lead a defendant to conclude that the copyright was being infringed is misplaced, as that issue was not before the court.

Finally, Graham relies on *In re Indep. Serv. Orgs. Antitrust Litig.*, 114 F. Supp. 2d 1070 (D. Kan. 2000). In that case, copyright owner Xerox contended that the defendant CCS had infringed Xerox's copyright in certain service manuals. CCS was in the business of servicing and maintaining Xerox copiers, and Xerox had previously sold the manuals to CCS, although CCS was not authorized to copy them. Xerox stopped supplying the manuals in 1989. Thereafter, CCS made some number of copies of manuals, although it was unclear which manuals or how they had been obtained and how many copies had been made. The court applied the discovery rule and granted summary judgment for Xerox, over CCS's argument that Xerox's claims should have accrued in 1989 because Xerox should have known that by ceasing to sell its manuals to CCS, CCS would have to copy the service manuals to stay in business. The court found that the fact that CCS remained in business after Xerox stopped selling it the manuals did not constitute suspicious circumstances giving rise to a duty to investigate by Xerox. Here, by contrast, there were additional and specific suspicious circumstances regarding Haughey's use of the binders in issue.

We reiterate and agree with Graham that mere possession by a person of a copyrighted work without more does not ordinarily place any burden on a copyright owner to investigate possible infringement. That, however, is not the case before us. Here, the

storm warnings or suspicious circumstances about possible infringement were compelling long before February 9, 2002, but Graham ignored them. The Works were contained in two voluminous binders. Only eight sets of these binders existed at Graham, and a Graham vice president tightly controlled their distribution. The Works were an extremely valuable business tool that Graham expected its producers, such as Haughey, to use to sell insurance. The very purpose of the Works was for producers to copy the relevant portions of them into client proposals and surveys and analyses. In fact, the Works were put into binders specifically to increase the ease with which they could be copied. To protect the competitive advantage the Works provided, Graham negotiated multiple contractual agreements with Haughey which obligated him to return the Works upon his departure from Graham. When Haughey's employment with Graham was terminated in 1991, Haughey did not return the binders and Graham never inquired about their whereabouts. Because of their size, their limited number, and their value, the absence of a copy should have been easily noticed. Graham was well aware that Haughey would be working for FOG, a competing insurance brokerage firm, and would have the same job responsibilities there as he did at Graham. As noted, the only real use Haughey would have for the Works was to copy them in violation of Graham's copyright. Graham also believed that Haughey was not a person of his word, for Graham considered him in violation of his contractual obligations by continuing to contact Graham clients after his employment there had been terminated. A person who had breached an agreement with Graham in this regard is likely to

infringe the copyright on its Works.

Clearly, Graham, a sophisticated party, had information upon Haughey's departure that would cause a person, in the exercise of reasonable diligence, to inquire of Haughey and FOG about the possession, use and copying of the information contained in the binders and even to demand their immediate return before any damage to Graham occurred. Instead, Graham ignored the obvious "storm warnings" or "suspicious circumstances" and made no investigation at all. *Benak*, 435 F.3d at 400-01. The Court of Appeals has instructed that, "[I]f storm warnings existed, and the [plaintiff] chose not to investigate, we will deem [it] on inquiry notice of [its] claims." *Benak*, 435 F.3d at 400-01 (citations omitted). Graham's total failure to pursue the existent storm warnings was unreasonable as a matter of law and precludes it from reaping the tolling benefits of the discovery rule. The three year statute of limitations set forth in the Copyright Act bars all of Graham's claims against defendants that accrued prior to February 9, 2002. Graham, of course, will still be able to recover defendants' profits arising from acts of infringement occurring on or after that date. 17 U.S.C. § 504.

Accordingly, the motion of the defendants for partial summary judgment will be granted. The damages Graham is entitled to recover after February 9, 2002 cannot be resolved on the record before us and must be decided at a new trial.

IV.

Graham has field a limited motion for reconsideration of our Order of November 21, 2006, which granted a new trial on the issue of the statute of limitations. That motion requested that the court's Order be amended to reflect that, in the event that a jury in the new trial were to determine the statute of limitations issue in Graham's favor, the amount of the first jury's determination of infringer profits as to defendants shall remain in effect and shall be entered in judgment in favor of Graham and against defendants. Because the issue of the statute of limitations has been decided on summary judgment against Graham, its motion for reconsideration will be denied.

Plaintiff's pending motions for summary judgment and to vacate paragraph two of the court's November 21, 2006 Order, which granted defendants' motion for a new trial on the issue of statute of limitations, will also be denied.

ORDER

AND NOW, this 29th day of March, 2007, for the reasons set forth in the accompanying Memorandum, it is hereby ORDERED that:

(1) the motion of defendants Thomas P. Haughey and USI Midatlantic, Inc. for partial summary judgment as a matter of law is GRANTED;

(2) judgment is entered in favor of defendants Thomas P. Haughey and USI Midatlantic, Inc. and against plaintiff William A. Graham Company with respect to plaintiff's claim for damages arising prior

to February 9, 2002;

(3) the motion of plaintiff William A. Graham Company for summary judgment is DENIED;

(4) the motion of plaintiff for reconsideration of the court's November 21, 2006 Order is DENIED; and

(5) the motion of plaintiff to vacate pursuant to Rule 60 of the Federal Rules of Civil Procedure is DENIED.

BY THE COURT:

/s/ Harvey Bartle III

C.J.

UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

NO. 05-CV-00612

WILLIAM A. GRAHAM COMPANY, PLAINTIFF

V.

THOMAS P. HAUGHEY, ET AL., DEFENDANTS

Dated: November 21, 2006

MEMORANDUM

Bartle, C.J.

Plaintiff William A. Graham Company ("Graham"), an insurance brokerage firm, filed this action against defendants Thomas P. Haughey ("Haughey"), a former employee of Graham, and USI Midatlantic, Inc. ("USI"), an insurance brokerage firm and Haughey's current employer. Plaintiff alleged that defendants infringed Graham's copyrights in its "Standard Survey and Analysis" and "Standard Proposal."[1] After trial, the jury returned a verdict in Graham's favor on its copyright infringement claim and awarded damages in the

[1] Plaintiff also included in its complaint a claim for breach of contract against defendant Haughey. Plaintiff alleged that he violated certain restrictive covenants in his employment agreement with Graham. Plaintiff withdrew the claim during trial.

amount of $16,561,230 against defendant USI and $2,297,397 against defendant Haughey. Now pending before the court are: (1) defendants' renewed motion for judgment as a matter of law under Rule 50(b) of the Federal Rules of Civil Procedure, or, in the alternative, for a new trial under Rule 59; (2) plaintiff's motion for pre-judgment interest; and (3) plaintiff's motion for post-judgment interest.

I.

In considering defendant's motion for judgment as a matter of law, the court must view the evidence, along with all inferences therefrom, in the light most favorable to the verdict winner, in this case, the plaintiff. *Alexander v. Univ. of Pittsburgh Med. Cnt. Sys.*, 185 F.3d 141, 145 (3d Cir. 1999).

Graham, as an insurance brokerage firm, provides property and casualty insurance services to businesses. When soliciting a prospective client, Graham typically prepares a risk management study, called a "survey and analysis," which evaluates the prospective client's insurance needs. If after receiving the individualized survey and analysis a client wishes to proceed further, a written proposal is prepared. The proposal contains coverage recommendations for the client as well as the cost of the recommended insurance. If acceptable to the client, Graham then places the client with an insurance company or companies which will actually write the insurance. Graham receives commissions from the insurance companies which issue the policies.

Graham's producers incorporate language from its Standard Survey and Analysis and its Standard Proposal (collectively the "Works") into the individualized survey and analysis and proposal prepared for each client. The allegations in this case stem from the use and copying of the Works by the defendants in connection with their business activities.

The Works, which consist of hundreds of pages contained in two binders, are derived from a document Graham developed in the 1980's, which it called the Standard Paragraphs. Graham employees used the language in the Standard Paragraphs to prepare surveys and analyses and proposals. At that time, Graham typically prepared one to two proposals each month for new clients. The proposals created from the Standard Paragraphs and delivered to clients did not contain any copyright notice, and Graham did not impose any contractual limitation on the client's use of the proposal. In 1990, some of the language in the Standard Paragraphs was combined with new material to create the Works. It was at this time that Graham first affixed copyright notices and began to place copyright notices on individualized proposals prepared for and distributed to clients.

On February 21, 1995, Graham filed two applications with the United States Copyright Office to register copyrights in certain portions of the Works. While the entire Works were attached to the applications, Graham told the Copyright Office that it did not claim a copyright in that part of the material which it highlighted in green. This highlighted material was described by Graham as

"created and published prior to March 1, 1989, without notice of copyright, and is therefore in the public domain." Graham only claimed a copyright in revisions of the Works which were made in the years 1990 through 1994 and which were published, it said, on December 13, 1994. Such revisions were highlighted in purple, pink, blue, yellow, and brown, each color representing the specific year in which the revision was made. In both applications Graham described the color-coded versions of the Works in which it was claiming copyright as "consist[ing] of editorial revisions and modifications to the original work of authorship (highlighted in green)."

On March 30, 1995, the copyright examiner informed Graham's counsel that registration of the Works was being delayed because it was unclear in which portions Graham wished to register copyrights. Graham submitted a revised application for the Standard Proposal on December 19, 1995, stating that it desired to register a copyright in the "new and revised text." Subsequently, the Copyright Office issued two certificates of registration, effective February 21, 1995, for those portions of the Works in which copyright was claimed. On October 23, 2000, Graham filed two applications for supplementary registration of the Works with the Copyright Office. In these applications, Graham identified what it characterized as errors in the original 1995 registration applications. The Copyright Office issued two supplementary certificates of registration for the Works, effective October 25, 2000, based upon Graham's supplementary applications.

From January, 1985 through September, 1991,

defendant Thomas Haughey worked for Graham as a producer. During Haughey's employment with Graham he was one of eight employees who were given copies of the Works, and he used them extensively in his work with clients. On September 11, 1991, Graham and Haughey entered into an agreement to terminate Haughey's employment. It included a provision that Haughey "reaffirms his continuing obligation, to abide by the terms, conditions and restrictions of the provisions of Paragraphs 3, 4 and 5 of the [1989 Employment Agreement]." These paragraphs prohibited Haughey from disclosing company information and retaining company documents after termination.

Upon leaving Graham, Haughey went to work at another insurance brokerage firm, Flanigan, O'Hara, Gentry & Associates ("FOG"). Haughey took with him to FOG a set of the binders containing the Works. At FOG, Haughey copied language from the Works in preparing written proposals for new clients. At some point in 1994 or 1995, FOG hired a temporary employee for the specific task of typing the language of the Works into its computer system. Paper copies were also distributed to employees at FOG. In March, 1995, USI Holdings acquired and merged with two other entities to create USI Midatlantic, Inc., the corporate defendant in this case. The Works were available to and used by USI employees. Defendants admit to incorporating portions of the Works into over 850 written proposals prepared for 315 clients. Graham learned of the copying in November, 2004, when it received a proposal from a client of the defendants while attempting to solicit that client's business. Graham filed this action for copyright

infringement on February 8, 2005.

After a five day trial and after denying the defendant's motion for judgment as a matter of law, the court submitted special interrogatories to the jury. The first interrogatory asked: "Has plaintiff William A. Graham Company proven, by a preponderance of the evidence, that defendants USI MidAtlantic, Inc. and Thomas P. Haughey infringed any copyright plaintiff has in either the Standard Survey and Analysis or the Standard Proposal?" The jury answered "yes." The second interrogatory asked: "Prior to February 9, 2002, should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" The jury responded "no." The final interrogatory dealt with damages: "What is the total amount of each defendant's profits attributable to the infringement, if any, that each defendant earned?" The jury found that defendant USI had earned $16,561,230 in profits attributable to the infringement and that defendant Haughey had earned $2,297,397 in such profits. Based on the jury's answers to these Special Interrogatories, the court entered judgment in favor of Graham and against the defendants in these amounts.

II.

Defendants, in support of their renewed motion for judgment as a matter of law under Rule 50(b), argue that the evidence is insufficient to support the jury's verdict of infringement. In particular, defendants maintain that Graham failed to produce adequate evidence to prove that the Works qualify for

copyright protection as derivative works and that plaintiff failed to meet its burden to prove a legally sufficient causal connection between any copyright infringement and the defendants' indirect profits found by the jury.

Rule 50 provides that judgment as a matter of law should be granted if there is "no legally sufficient evidentiary basis for a jury to find for the party on that issue." Fed. R. Civ. P. 50(a). "Although judgment as a matter of law should be granted sparingly, a scintilla of evidence is not enough to sustain a verdict of liability." *Lightning Lube, Inc. v. Witco Corp.*, 4 F.3d 1153, 1166 (3d Cir. 1993) (citation omitted). "In determining whether the evidence is sufficient to sustain liability, the court may not weigh the evidence, determine the credibility of the witnesses, or substitute its version of the facts for the jury's version." *Id.* (citation omitted).

A.

Defendants first contend that they are entitled to judgment as a matter of law under Rule 50(b) because Graham failed to produce sufficient evidence to prove that the Works qualify for copyright protection as derivative works. A derivative work is "a work based on one or more preexisting works .... A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a 'derivative work.'" 17 U.S.C. § 101.

To be eligible for copyright protection, a work must not have been previously released into the

public domain. As a general rule, material that was publicly distributed without notice of copyright prior to March 1, 1989 has entered the public domain. 17 U.S.C. § 405(a). Graham does not dispute that between 1984 and March 1, 1989, it sent out to clients and prospective clients, without notice of copyright, various surveys and analyses and proposals using language from the Standard Paragraphs, which as noted above served as the precursor to the Works. When Graham published the language in this way, it injected it into the public domain. *William A. Graham Co. v. Haughey*, 430 F. Supp. 2d 458, 471 (E.D. Pa. 2006).

Graham maintains that those portions of the Works that did not enter into the public domain qualify for copyright protection as a derivative work. A derivative work is entitled to copyright protection only to the extent that it includes the author's subsequent contributions and is distinguishable from the preexisting material contained in the work. 17 U.S.C. § 103(b). This originality requirement means that for Graham to prevail in proving that the Works were validly copyrighted as derivative works, it must show that they contain some "distinguishable variation[s]" from the material that entered the public domain. *Dam Things from Denmark v. Russ Berrie & Co., Inc.*, 290 F.3d 548, 564 (3d Cir. 2002) (citations omitted). Additionally, "to determine whether one work is a derivative of another, the [fact finder] must actually compare the works at issue." *Id.* at 566.

Defendants assert that in order for the jury to make the requisite comparison, Graham needed to

introduce into evidence copies of the pre-1989 versions of the Works. Graham admittedly did not retain copies of all prior versions. As a result, defendants contend that Graham could not meet its burden of showing that the Works include distinguishable variations from the material in the public domain. We disagree. The court charged the jury without objection that: "Copyright protection will extend to the derivative work so long as it contains distinguishable variations *from the language in the public domain* that are more than merely trivial." Jury Instructions, at ¶ 53 (emphasis added). Similarly, in our ruling on the parties' cross-motions for summary judgment, we explained that there was a genuine issue of material fact as to whether the Works were subject to copyright as a derivative work: "[The question of whether distinguishable variations exist] cannot be answered at this time because we do not have access to the *language that was placed in the public domain*, that is, the client proposals distributed prior to March 1, 1989, for comparison with the material in the Works, revised in the 1990's." *Graham*, 430 F. Supp. 2d at 471-72 (emphasis added).

The prior language needed for comparison with the copyrighted Works is not the past versions of the Works in their entirety, but, instead, only the language from the previous versions that has entered the public domain. Thus, to the extent that there were earlier drafts or parts of drafts of the Works that remained in-house at Graham and were not included in any of Graham's proposals sent to clients, they never entered the public domain and are irrelevant for present purposes. There is no reason to

believe, and certainly defendants do not contend, that any language from the early versions of the Works entered the public domain through any other means than through Graham's surveys and analyses and proposals to clients.

By comparing the language in the client proposals distributed prior to March 1, 1989 with the language in the Works as they were copyrighted in the 1990's, the jury would have the information necessary to make the comparison required by *Dam Things*. In fact, this is precisely the evidence that Graham introduced. Graham vice-president Margaret Jones testified as to which material in the Works was sent to clients prior to March 1, 1989 and which was not, and she prepared a spreadsheet which summarized this information. According to Ms. Jones' comparison, which the jury was entitled to credit, half or more of the language in the Works had not previously been injected into the public domain. The jury had before it as evidence the copyrighted Works, Ms. Jones' spreadsheet, a comparison book that contained copies of the actual language from pre-March 1, 1989 proposals that were sent to clients, and all of the underlying pre-March 1, 1989 proposals in their entirety. The jury could and did find from this evidence that defendants engaged in infringement, that is, that the Works as presented to the Copyright Office contained sufficiently distinguishable variations from the language in the public domain that the Works qualified for copyright protection as a derivative work.

Nor are we persuaded by defendants' additional argument that the Works are not entitled to

copyright protection because they contain standard insurance industry terminology. Defendants raised the same argument with respect to certain sections (entitled "Coverage Specifications") of the Standard Proposal in their motion for summary judgment. *Graham*, 430 F. Supp. 2d at 465. An arrangement of information, such as the Works, that was created independently by the author and "possesses at least some minimal degree of creativity," can be copyrighted as a compilation. *Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340 at 345 (1991). The jury was instructed that "A work that is entirely a collection of unoriginal material, such as facts, nevertheless may be copyrighted if the material is selected, coordinated or arranged in an original fashion." Jury Instructions ¶ 47. Given the low threshold of originality under *Feist*, there was certainly enough evidence from which the jury could find that the Works were original compilations and that defendants copied extensively from them.

Accordingly, we will deny the defendants' motion for judgment under Rule 50(b) to the extent the motion is predicated on the ground that the Works do not qualify for copyright protection.

B.

Defendants also move for judgment as a matter of law on the ground that plaintiff has not proven a legally sufficient causal connection between any copyright infringement and defendants' profits found by the jury.

When a copyright owner proves that a defendant

has infringed a valid copyright, it is entitled to recover damages. The Copyright Act provides that "[t]he copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. § 504. In this action, Graham seeks only the infringers' profits. This element of damages includes not only an infringer's direct profits, which are those generated from the sale of an infringing product itself, but also its indirect profits, which have a more attenuated connection to the infringement. *Mackie v. Rieser*, 296 F.3d 909, 914 (9th Cir. 2002). Here, Graham sought the defendants' indirect profits, that is, the commissions the defendants were paid when their clients purchased insurance through them after receiving written proposals or other explanations containing infringing language.

The Copyright Act creates a burden-shifting scheme: "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." 17 U.S.C. § 504(b). The court delineated the copyright owner's burden in its instructions to the jury:

> In calculating the amount of "profits attributable to infringement," plaintiff is first required to prove by a preponderance of the evidence the defendants' "gross revenue reasonably related to the

> infringement." The gross revenue of [defendants] reasonably related to the infringement is the dollar amount of commissions they earned that can be attributed to the use of proposals containing infringing material .... For the plaintiff to recover damages, there must be a causal connection between the infringement and the commissions earned.

Jury Instructions at ¶ 66.

The term "gross revenue" in the indirect profit context does not mean all profits accrued by an infringer during the period of infringement. Instead, the statute limits the owner's remedy to that revenue which is reasonably attributable to the infringement. *Bonner v. Dawson*, 404 F.3d 290, 293 (4th Cir. 2005), citing 17 U.S.C. § 504. *Accord On Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001); *Polar Bear Products v. Timex Corp.*, 384 F.3d 700 (9th Cir. 2004). Although the profits attributable to the infringement may be more difficult to quantify in an indirect profits case, the burden on the copyright owner does not change. The copyright owner has the initial burden of establishing whether the infringer profited from the infringement at all. *Andreas v. Volkswagen of America, Inc.*, 336 F.3d 789, 796-97 (8th Cir. 2003). In other words, the owner must show a causal connection between the infringement and the profit stream sought. *Bonner*, 404 F.3d at 294.

The Court of Appeals for the First Circuit has described as "minimal" the copyright owner's initial

burden to establish this causal connection. *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1173 (1st Cir. 1994). The limited burden is rooted in strong policy considerations. "[T]he burden shifting rule in ... 504(b) is ... an equitable response to an infringer who has frustrated the task of apportionment by co-mingling profits." *Id.* at 1176. Often, as in this case, the defendant has mixed infringing material with non-infringing material and created one co-mingled work. Equity places the burden on a defendant to unravel the threads. The statute places the burden of apportionment of profits on the infringer, while only requiring the copyright owner to limit the gross profits sought to those profits reasonably attributable to the acts of infringement. 17 U.S.C. § 504(b); *Polar Bear Products*, 384 F.3d at 715.

The record clearly establishes that Graham met its minimal burden of showing a causal link between the infringing language and defendants' profits. Graham's expert, Dr. Richard Gering, calculated the revenue USI, including Haughey, obtained when clients bought insurance after receiving written proposals with language that matched the copyright protected language of the Works. For the period from 1992 to 2005, Haughey earned $12,250,000 in commissions while all other USI producers earned $19,570,000 in commissions, for a total of $31,800,000. Dr. Gering excluded from his calculations defendants' revenue resulting from the purchase of insurance by clients which received proposals with no infringing language.

The evidence also demonstrated that the written

proposals USI employees presented to clients were an important part of the USI sales process. USI Vice-President Lisa McKernan testified that it was the practice and preference of USI to hand the proposal to the client in a face-to-face meeting so that the client "understands what they're purchasing." McKernan Dep. 21:20 - 23:18, June 15, 2005. James O'Hara, a producer and president of USI's Allentown office, stated that he used the written proposal to help a client "who is not well schooled in the insurance industry, to understand as best as possible what his protection is all about." O'Hara Dep. 169:7 - 170:13, Mar. 10, 2006. Another USI producer, Donald Roberts, testified that the proposal "gives us a chance to prove to our [clients] that we have been able to accomplish what we've set out to accomplish. That the objectives that we had are meaningful to the client and we can walk you through the entire process. To me, that's what establishes the value that we bring[]." Trial Tr. vol. 4, 126:4-23, June 22, 2006. Haughey himself acknowledged that by reviewing the proposal with the client, "a client can be convinced to buy and place its coverage through [him]." Trial Tr. vol. 3, 28:5-8, June 21, 2006. He also recognized the value of having documents such as the Works in obtaining insurance commissions.

If nothing else, the pervasiveness of defendants' use of the language from the Works in their written proposals to clients undermines the credibility of their argument that their copying of the infringing language was of no benefit to them. For thirteen years, USI, its predecessor, FOG, and Haughey employed language from the Works. They incorporated infringing language in 857 sales

proposals prepared for 315 different clients. Defendant USI made the content of the Works which FOG and USI referred to as the "proposal and survey and analysis explanation books" available to all of its account managers. USI urged all of the sales support staff to "remember to use the survey and analysis explanation books." Pl.'s Ex. 123.

USI employees continued to employ the infringing language even after USI developed a non-infringing proposal format of its own. In 1997, when FOG and two other companies merged to form USI, a joint committee created its own Standard Proposal, which all staff members were then supposed to use. Haughey admitted that he continued to use language from the Works even after this lawsuit was filed. Dr. Gering's analysis likewise confirms defendants' continued use of infringing language. After the filing of this lawsuit on February 7, 2005, at least 24 infringing proposals were provided to USI clients.

Finally, FOG authorized the hiring of a temporary employee for the specific task of typing the two "huge binders" containing the Works into FOG's word processing files, where they became tools available on FOG's, and later USI's, computer system. Trial Tr. vol. 2, 112:10 - 113:8, June 20, 2006. Paper copies of the Standard Survey and Analysis were also distributed to all producers. The ready availability of language from the Graham's Works to USI employees is particularly significant since the Works were virtually the only source of written insurance policy explanations within USI.

Defendants suggest that the only way Graham

could have met its burden to show a causal connection between the infringement and defendants' profits was by: (1) calling a USI customer to testify that it purchased insurance through USI because of the infringing language of the written proposal; (2) obtaining an admission from defendants that the use of the infringing language was important to their business; (3) calling a marketing expert to testify to a causal relationship between the use of infringing language in defendants' written proposals and increases in sales of insurance by defendants; or (4) demonstrating that defendants earned increased commissions from sales of insurance stemming from the use of infringing written proposals. Although the court recognizes that such evidence could surely have helped establish a causal connection, the law does not impose any one of these requirements.

The case law supports the court's view that plaintiff has met its minimal burden to show a causal connection between defendants' infringement and the defendants' profits found by the jury. The Court of Appeals for the Eighth Circuit confronted the issue in *Andreas v. Volkswagen of America, Inc.*, an indirect profits case which involved an infringing advertisement for the Audi TT coupe. 336 F.3d 789. It concluded that the copyright owner's initial burden under § 504(b) was met by simply showing Audi's gross revenue from sale of the TT coupe without including revenue earned from the sale of other Audi automobiles. *Id.* at 796-97. The infringement consisted only of ten infringing words from plaintiff's poem and was shown in only one of three commercials Audi ran promoting the TT coupe. *Id.* at 791-92. The court nonetheless concluded that the

plaintiff met his burden by showing that "the commercial contributed to the profitable introduction of the TT coupe." The court "reject[ed] the notion that [the copyright owner] was required to put a TT buyer on the stand to testify that she bought the car because of the commercial in order to meet his burden of a causal connection." *Id.* at 797.

The Court of Appeals for the Fourth Circuit followed a similar analysis in *Bonner v. Dawson*. 404 F.3d 290. In that case, an architect sued a builder for infringement of his copyright of a building design. *Id.* The court held that the copyright owner met his initial burden under § 504(b) merely by proving that the builder had made a profit from leasing out space in the infringing building and limiting the profits sought to those generated from leases in that particular building. *Id.* at 294. The architect did not have to show that the tenants leased space because of the specific design of the structure. *Id.*

Similarly, in *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, decided under the Copyright Act of 1909, defendants used five songs from the musical "Kismet" in a musical compilation called "Hallelujah Hollywood," which was staged at the MGM Grand Hotel in Las Vegas. 772 F.2d 505, 510 (9th Cir. 1985). The Kismet segment of the show ran about 1700 times between 1974 and 1976. *Id.* at 510-11. That segment accounted for 11.5 minutes in a 100 minute performance, although only an estimated six of the 100 minutes contained copyrighted music taken directly from Kismet. *Id.* Plaintiff introduced MGM's annual report, which stated that "the hotel and gaming operation of the MGM Grand-Las Vegas

continue to be materially enhanced by the popularity of the hotel's entertainment[, including] 'Hallelujah Hollywood.'" *Id.* at 517. The Court of Appeals for the Ninth Circuit held that the plaintiff could recover not only direct profits from the show itself but also indirect profits from the site's hotel and gaming operations because of the "promotional nature" of "Hallelujah Hollywood." *Id.*

The cases, including those cited by defendants, where courts have found as a matter of law that the copyright owner did not meet the causal connection requirement are distinguishable from the circumstances presented here. In *On Davis*, an eyeglass designer sued The Gap clothing stores for copyright infringements when one of The Gap's models wore the designer's glasses in an advertisement without permission. 246 F.3d 152. The court ruled that the designer did not meet his burden of establishing a causal connection when the only evidence he introduced regarding The Gap's gross revenue was all $1.668 billion dollars that The Gap's parent company had earned during the duration of the advertising campaign. *Id.* at 159. The court explained: "Because the ad infringed only with respect to Gap label stores and eyewear ... it was incumbent on [the plaintiff] to submit evidence at least limited to the gross revenues of the Gap label stores, and perhaps also limited to eyewear or accessories. Had [the plaintiff] done so, the burden would then have shifted to the defendant under the terms of § 504(b)." *Id.* at 160.

The *On Davis* case also contains an instructive illustration. Although this example is admittedly in a

direct profits context, it clarifies the notion that plaintiff's burden is limited. The court explained that a hypothetical copyright owner need only prove the revenue from a defendant's sales of an anthology of poetry as a whole, even if just one poem in the anthology was infringing the owner's copyright. It would then be up to the defendant to demonstrate "the extent to which its profits from the sale of the anthology were attributable to factors other than the infringing poem, including particularly the other poems contained in the volume." 246 F.3d at 160. The example makes clear that when there is both infringing and noninfringing language in a document, it is defendants' responsibility to identify the amount and impact of the non- infringing language on their profits. The Supreme Court has noted this as well, stating: "An infringer who commingles infringing and non-infringing elements 'must abide by the consequences, unless he can make a separation of the profits as to assure to the injured party all that justly belongs to him.'" *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 567 (1985), *citing Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 406 (1940).

Mackie v. Riser, cited by defendants, likewise does not support their position. 296 F.3d 909. There, the Seattle Symphony Orchestra included a picture of a piece of the plaintiff's copyrighted artwork in an advertising brochure soliciting subscriptions to the Orchestra's upcoming series of performances. *Id.* The plaintiff sought the Orchestra's profits from that entire season as well as for future seasons. *Id.* at 913. In affirming the district court's grant of summary judgment for the defendants, the Court of Appeals for

the Ninth Circuit could find no evidence at all of a causal connection: "Remarkably, [the plaintiff's] own expert stated that he could not 'understand' how it would be possible to establish a causal link between the Symphony's infringing use ... and any [Orchestral] series revenues ...." *Id.* at 917. Dr. Gering, Graham's expert, made no such concession.

Finally, in *Polar Bear Products*, the defendant Timex Corp. used the plaintiff's copyrighted film footage featuring action shots of whitewater kayaking to promote one of its lines of watches. 384 F.3d 700. The plaintiff sought, among other things, defendant's profits from watch sales at trade shows where the film footage was shown as well as "enhanced brand prestige" profits resulting from the affiliation of the watch line with the sport of extreme kayaking. *Id.* at 712. The court made it clear that all the plaintiff had to do was to introduce a "modicum" of evidence that would link the category of profits sought to the infringement. *Id.* at 715. The plaintiff was not required to "put Timex customers on the witness stand to testify that they purchased watches because of Timex's use of [the kayaking] images." *Id.* The court determined that testimony from the plaintiff's expert witness calculating the approximate profits Timex gained from trade-show sales where the infringing video was shown was sufficient to establish a causal connection. *Id.* at 712. With respect to profits arising from "enhanced brand prestige," however, the plaintiff failed to establish the requisite causal connection. The plaintiff sought a significant percentage of Timex's entire net profit gain from a four-year period. The court found that the causal element of the statute had not been satisfied because

the plaintiff was unable to demonstrate that Timex's *overall* increased sales revenue was related to the use of the infringing material, which had been shown at only twelve trade-shows and not at any other Timex stores or outlets where many Timex sales occurred. *Id.* at 715.

The pending action seems to be particularly analogous to those cases where the copyright infringement occurred in an advertising campaign. In those cases, the advertisement typically contains only a small amount of infringing material mixed in with non-infringing material, and the plaintiff seeks the infringer's indirect profits gained from the sale of the advertised article. As detailed above, courts in these cases have allowed recovery. They have never imposed on the copyright owners the onerous obligation to show that it was the specific infringing language that resulted in the defendant's profits or that the customer bought the product because of the infringing segment of an advertisement. Likewise, in *Frank*, the "Hallelujah Hollywood" show combined a small amount of infringing material with a large amount of non-infringing material. The copyright owner sought profits from the site's hotel and gaming operations, which were only indirectly related to the copyright infringement in the hotel's "Hallelujah Hollywood" production. The court again allowed recovery.

Here, Graham limited its request for damages to the commissions obtained by defendants as a result of the purchase of insurance by their clients which had received proposals containing infringing language. From our reading of § 504(b) and the

precedents interpreting it, nothing more was required before the burden shifted to defendants to demonstrate any "deductible" expenses or "the elements of profit attributable to factors other than the copyrighted works." 17 U.S.C. § 504(b). Plaintiff has met the statutory threshold to establish a causal connection between the infringement and defendants' profits. Thus, the motion of defendants under Rule 50(b) for failure to prove the necessary causal connection will be denied.

III.

In addition to its renewed motion for judgment as a matter of law, defendants move in the alternative for a new trial under Rule 59. That Rule provides that "A new trial may be granted ... in any action in which there has been a trial by jury, for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States." Fed. R. Civ. P. 59(a). The standard for granting a new trial, although lower than that required for judgment as matter of law, is still high. *Sheridan v. E.I. DuPont de Nemours & Co.*, 100 F.3d 1061, 1076 (3d Cir. 1996), *citing Roebuck v. Drexel Univ.*, 825 F.2d 715, 735-36 (3d Cir. 1988). "A new trial should be granted only where the great weight of the evidence cuts against the verdict and where a miscarriage of justice would result if the verdict were to stand." *Springer v. Henry*, 435 F.3d 268, 274 (3d Cir. 2006) (citations omitted). The Third Circuit has explained that "this stringent standard is necessary to ensure that a district court does not substitute its judgment of the facts and credibility of the witnesses for that of the jury." *Sheridan*, 100 F.3d at 1076

(citations omitted).

A.

Defendants first move for a new trial, claiming that the weight of the evidence does not support the jury's finding that the Works are subject to copyright protection or that there is a causal link between any copyright infringement by defendants and their commission revenues. For the reasons set forth above, the jury had more than sufficient evidence from which to find that the Works were subject to copyright protection. Similarly, the evidence fully supports the jury's finding that Graham met its burden of showing a causal connection between defendants' use of proposals containing infringing language and the profits Graham sought to recover. Accordingly, a new trial on either of these grounds will be denied.

B.

Defendants also move for a new trial with respect to damages on the ground that the great weight of the evidence does not support the jury's finding with respect to Special Jury Interrogatory No. 2 which asked: "Prior to February 9, 2002, should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" The jury answered "no."

The copyright statute provides that "[n]o civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued." 17 U.S.C. § 507(b). Graham

filed this action on February 8, 2005. Consequently, under ordinary circumstances, the statute of limitations would bar any of Graham's copyright claims that accrued prior to February 9, 2002. However, Graham invokes the discovery rule. Under that rule, a copyright claim does not "accrue" under the statute until "the moment [the copyright owner] has knowledge of the violation or is chargeable with such knowledge." Aug. 15, 2005 Order of Judge Newcomer (Docket Entry 31), *citing Roley v. New World Pictures*, 19 F.3d 479, 481 (9th Cir. 1994) (other citations omitted).[2] The determination of when knowledge will be imputed to a party under the terms of the discovery rule is presumptively a question for the jury but may be decided as a matter of law when the party invoking the rule does not

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[2] Defendants request that this court reconsider the August 15, 2005 Order of our late colleague Judge Clarence Newcomer to whom this case was initially assigned. After Judge Newcomer's death on August 22, 2005, the action was reassigned to the undersigned. In the August 15 Order, the court held that the discovery rule applies to claims for copyright infringement. We decline to reconsider that ruling. Defendants appear to argue that *Auscape Int'l v. Nat'l Geographic Soc.*, 409 F. Supp. 2d 253 (S.D.N.Y. 2004), and two later cases from the same district have become "controlling law" or rendered Judge Newcomer's decision "clear error," such that the earlier ruling should be reconsidered. Defs.' Mem. of July 27, 2006, n.7 (Docket Entry 144). The court disagrees with this contention and will not reconsider Judge Newcomer's well-reasoned decision, which is supported by substantial authority.

present sufficient proof to send the issue to a jury. *See Smith-Haynie v. District of Columbia*, 155 F.3d 575, 579 (D.C. Cir. 1998); *Bohus v. Beloff*, 950 F.2d 919, 925 (3d Cir. 1991).

Proving the applicability of the statute of limitations usually falls on the defendant as an affirmative defense. See Fed. R. Civ. P. 8(c). When, however, as here, a plaintiff seeks the benefit of the discovery rule, the burden shifts to it to prove that in the exercise of reasonable diligence it should not have discovered the infringement before the statutory bar, in this case, February 9, 2002. See *Hayes v. Norfolk Southern Corp.*, 25 Fed. Appx. 308, 314-15 (6th Cir. 2001); *Gould v. U.S. Dep't of Health and Human Services*, 905 F.2d 738, 745-46 (4th Cir. 1990); *Clift v. Int'l Union, United Auto., Aerospace & Agricultural Implement Workers of America*, 818 F.2d 623, 629 (7th Cir. 1989) (abrogated on other grounds). Here, Graham introduced evidence that defendants began their acts of infringement as far back as 1992. It is well settled in continuing infringement cases such as this that "[e]ach act of infringement is a distinct harm giving rise to an independent claim for relief." *Stone v. Williams*, 970 F.2d 1043, 1050 (2d Cir. 1992); *Roley* at 481. Thus, if Graham cannot prove that it was excused from discovering the pre-February 9, 2002 acts of infringements prior to that date, the damages available are limited to defendants' profits arising from acts of infringement occurring on or after February 9, 2002.

There is adequate evidence in the record to establish that Graham did not actually know of the infringement until 2004 when a Graham employee

saw a copy of one of USI's infringing proposals. That, of course, is not sufficient to satisfy Graham's burden with respect to the discovery rule. Graham must also prove that in the exercise of reasonable diligence it *should* not have known before February 9, 2002 about any of defendants' acts of infringement occurring before that date. *Stone v. Williams*, 970 F.2d 1043, 1048 (2d Cir. 1992). When a plaintiff is aware of facts that may furnish it with a cause of action, a duty of inquiry arises and "[p]laintiff is charged with whatever knowledge an inquiry would have revealed." *Id.* at 1049. Once a plaintiff has knowledge or imputed knowledge of a potential claim, the statute of limitations begins to run. *Cetel v. Kirwan Fin. Group, Inc.*, 460 F.3d 494, 508 (3d Cir. 2006).

Although our Court of Appeals, so far as we can ascertain, has never addressed the question of inquiry notice in a copyright action, it has frequently confronted that issue in securities fraud and RICO cases. We see no reason why its analysis in those cases should not apply with equal force here. In a recent RICO action, the court employed a two-prong test to determine whether a plaintiff will be deemed to have notice of its claims. *Matthews v. Kidder, Peabody & Co., Inc.*, 260 F.3d 239, 252 (3d Cir. 2006), *see also Benak ex rel. Alliance Premier Growth Fund v. Alliance Capital Mmgt., L.P.*, 435 F.3d 396, 400-01 (3d Cir. 2006) (securities fraud). First, the defendant must come forward with evidence of the existence of "storm warnings," or "suspicious circumstances," that would alert a reasonable person that an investigation should be made. *Id.* After the defendant has done so, the burden is then upon the plaintiff to establish that

it was reasonably diligent in making an adequate investigation but was still unable to discover its injuries. *Id.* Thus, when a plaintiff has not been reasonably diligent in investigating "storm warnings" or "suspicious circumstances," it may not invoke the discovery rule and instead will be deemed to have notice of its claims. *Id.*; *Benak*, 435 F.3d at 400-01.

We now turn to the evidence of "storm warnings" or "suspicious circumstances." We start with the fact that the two binders containing the infringed Works were quite voluminous with each containing hundreds of pages. Copies were issued to only eight Graham employees and were very tightly controlled by Margaret Jones, a vice president and the manager of the technical development department at Graham. She testified at trial:

> ... I prepared [the binders containing the Works], with my assistant. Back then, we didn't have word processing like we do today. So, we were the ones that prepared – we would go collect – well, first time, we prepared the green binders that we gave to all of our producers, and we're the ones that printed out all the pages. We're the ones that put copyright notice on that white glossy sheet. And we took them around and we gave them to each of our producers. And then, whenever we would make changes to the standard proposal, we would go collect all eight copies. Bring them all the changes and we would distribute them. We control the entire process.

Trial Tr. vol. 1, 156:9 - 156:22, June 19, 2006. Graham emphasized during the trial how important the binders were to it. Graham's president, William Graham, testified that the Works are "absolutely essential" to his company's business and that they are "probably the most important way that we can establish creditability [sic] with a perspective [sic] client." Trial Tr. vol. 2, 55:5 - 55:20, June 20, 2006. He explained that, because the insurance industry is "so confusing," it is the use of the simplified language in the Works that allows Graham to "get in front of hundreds of businesses" (establish its competitive edge) and to "tell a customer, we know what we are doing." *Id.* at 55:25 - 57:12. Graham created the Works not simply to be read by its producers but with the explicit intention that the producers would copy the relevant parts into the written proposals presented to Graham's clients.

Further, it was undisputed that Graham expected Haughey to return the copyrighted binders when he left Graham's employ in 1991. At that time, Graham and Haughey negotiated a contractual agreement, dated September 11, 1991, whereby Haughey specifically reaffirmed his obligation under his 1985 and 1989 employment contracts to return all Graham Company books, documents and other property upon his departure. The employment contract stated that:

> All books, cards, records, accounts, files, notes, memoranda, lists and other papers or the information contained therein or obtained therefrom, connected with or arising from or created in the

> activities and/or affairs of Employer, in the charge or possession of Employee, is the property of Employer and ... [a]t the termination of this Agreement ... *shall be turned over to and delivered to Employer without hesitancy or delay*. (emphasis added).

1989 Producer Employment Agreement. Due to the size, significance, and limited number of copies of the Works, Haughey's failure to return his copy would have been obvious. Moreover, there was Haughey's recent reaffirmation of his contractual obligation to return the binders. Indeed, according to Margaret Jones, a Graham vice president, Graham was aware that the binders had never been turned in. Ms. Jones testified:

> Q: Did you ever say to anyone involved in the exit process, we never got back the binders that we gave to Tom Haughey of the two standard works?
>
> A: I never said that to anybody.
>
> Q: You had been keeping track of the fact that they never came back and were out there somewhere, did you?
>
> A: Correct.

Trial Tr. vol. 1, 201:8 - 201:14, June 19, 2006. In sum, the evidence established without contradiction that Graham knew or should have known that a copy of the binders remained in Haughey's possession after he was terminated.

Of course, it is the use or copying of the contents of the binders, not simply Haughey's possession of the physical binders themselves, that is critical in this copyright infringement action. Graham created the Works not as an ornament but with the intention that they be copied into the surveys and analyses and the proposals submitted to its clients. It is undisputed that Graham knew that Haughey was leaving it to work for FOG, a competing insurance brokerage firm and not, for example, going into retirement or another field of endeavor. Graham was aware that Haughey's position at FOG would be a producer, the same position he held at Graham, and understood that among Haughey's responsibilities would be the preparation of written client proposals. Haughey's departure for a competitor is the reason the 1991 Termination Agreement between Graham and Haughey was negotiated and signed. In addition, on November 25, 1991, Graham, Haughey and FOG entered into a separate agreement whereby FOG purchased from Graham certain accounts for which Haughey had been responsible at Graham. As sophisticated insurance professionals, those in management at Graham knew how valuable the binders would be in the hands of a competitor. Graham had to know that without the immediate return of the binders it was quite possible, if not likely, that Haughey and FOG would copy their contents into client proposals, for that was the only reason for Haughey and FOG to retain the binders. Graham could not have reasonably believed that the unreturned binders would sit unopened, collecting dust, on Haughey's desk once he was working at FOG.

Graham contracted to have the binders "turned over and delivered to [it] without hesitancy or delay" in order to prevent Haughey and FOG from using and copying their contents in connection with their competing insurance business. Graham could not have thought that the copyrights on the Works in and of themselves would serve as a sufficient deterrent to infringement. Otherwise, it would not have negotiated a reaffirmation of Haughey's obligation to turn over the binders upon his departure. Haughey's possession of the binders cannot realistically be separated from the copying of contents of the binders into client proposals. Clearly, Graham was aware of sufficient facts to put it on notice that Haughey and FOG might be engaging in copyright infringement long before February 9, 2002. Graham had information upon Haughey's departure that would cause a person, in the exercise of reasonable diligence, to inquire of Haughey and FOG about the possession, use and copying of the information contained in the binders and even to demand their immediate return before any damage to Graham occurred. Instead, Graham ignored the "storm warnings" or "suspicious circumstances" and made no investigation at all. *Benak*, 435 F.3d at 400-01.

Graham makes two arguments attempting to excuse its inaction. First, it contends that Haughey and FOG, if asked, would have lied about the whereabouts and use of the missing binders if it had made inquiry in the 1990's.[3] In effect, Graham is

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[3] The apparent basis for Graham's argument on this point is an interrogatory in which Haughey was

speculating that fraudulent concealment would have occurred at that time. Second, Graham makes an eleventh-hour assertion that it would not have discovered the copyright infringement even if it had made inquiry at the time of Haughey's departure because Haughey did not begin copying the language from the Works until some months later.

Neither of Graham's arguments has merit. The Court of Appeals has instructed that "Plaintiffs cannot, *post hoc*, excuse a failure to inquire by demonstrating the difficulty they would have had attaining relevant information. Therefore, if storm warnings existed, and the [plaintiff] chose not to investigate, we will deem [it] on inquiry notice of [its] claims." *Beak*, 435 F.3d at 400-01 (citations omitted). The Court of Appeals explained on another occasion that "excus[ing a party's] lack of inquiry, because, in

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asked about the source of the language used in the Burns & McBride proposal, which Graham obtained in November 2004 and from which it discovered USI's infringement of the Works. In his verified answer to the interrogatory, Haughey cited a proposal he had previously prepared for another client, which also used infringing language and was the direct template for the Burns & McBride proposal. He did not mention the Works themselves, which were the original source. Graham maintains that this omission shows that Haughey would have lied to Graham, had Graham asked him whether he was copying the Works 13 years earlier. Significantly, Graham's counsel did not make this argument in its summation to the jury.

retrospect, reasonable diligence would not have uncovered [its] injury ... would, in effect, discourage investigation." *Matthews*, 260 F.3d at 252 n.16.

Under the circumstances, it was against the great weight of the evidence for the jury to answer "no" to Special Jury Interrogatory 2, which asked: "Prior to February 9, 2002, should plaintiff have discovered, with the exercise of reasonable diligence, that defendants were infringing its copyrights?" Accordingly, we will grant a new trial on this issue. Because the amount of damages is inextricably bound up with the question of the application of the statute of limitations, we also will grant a new trial as to damages.

C.

Finally, defendants claim that a new trial is appropriate because the weight of the evidence does not support the jury's apportionment of defendants' commissions between those that are attributable to the infringement and those that are attributable to factors other than the infringement. Defendants also request a new trial on the basis that the amount of the verdict is excessive. Defendants request in the alternative that the damages awarded to Graham should be remitted. Since the court will grant a new trial on the issues of the applicability of the statute of limitations and of damages, the court will not reach these additional issues.

IV.

Plaintiff has also filed motions with the court for

pre-judgment and post-judgment interest. The grant of a new trial on the issues of the applicability of the statute of limitations and damages obviates the need to address these motions at this time. We will deny them without prejudice.

ORDER

AND NOW, this 21st day of November, 2006, for the reasons set forth in the accompanying Memorandum, it is hereby ORDERED that:

(1) the motion of defendants Thomas P. Haughey and USI Midatlantic, Inc. for judgment as a matter of law is DENIED;

(2) the motion of defendants for a new trial on the issues of the statute of limitations and damages is GRANTED;

(3) the motion of plaintiff William A. Graham Company to amend judgment to include prejudgment interest is DENIED without prejudice; and

(4) the motion of plaintiff to alter judgment to include post-judgment interest is DENIED without prejudice.

BY THE COURT:

/s/ Harvey Battle III

C.J.